

THE UNIFORM FRANCHISE OFFERING CIRCULAR

GUIDELINES

GENERAL INSTRUCTIONS

90. Introduction: The Uniform Franchise Offering Circular ("UFOC") Guidelines consist of the Requirements, the Instructions and the Sample Answers. The UFOC Guidelines were prepared and adopted by the North American Securities Administrators Association ("NASAA") and its predecessor, the Midwest Securities Commissioners Association. The members of NASAA cannot create statutes since that is the constitutional province of state legislatures, but NASAA intends for the UFOC Guidelines to facilitate compliance with disclosure requirements under state franchise investment laws. Where possible, NASAA has developed uniform disclosure requirements, but differences in state laws bearing on the franchise relationship may necessitate changes. In addition, state administrators will continue to review the application for deficient disclosure and additional disclosure necessitated by special problems or risks in the proposed offering.

100. Follow these General Instructions and the Requirement and Instruction for each Item in franchise registration applications and disclosures in the Uniform Franchise Offering Circular.

110. Original Registration Application - Documents to File:

- (a) Uniform Franchise Registration Application Page (also known as "Facing Page");
- (b) Supplemental Information page(s);
- (c) Certification page;
- (d) Uniform Consent to Service of Process;
- (e) Sales Agent Disclosure Form;
- (f) If the applicant is a corporation or partnership, an authorizing resolution if the application is verified by a person other than applicant's officer or general partner;
- (g) Uniform Franchise Offering Circular;
- (h) Application Fee;
- (i) Auditor's consent (or a photocopy of the consent) to the use of the latest audited financial statements in the offering circular; and
- (j) Advertising or promotional materials.

Examples of forms (a) through (f) are printed at the end of these Guidelines.

120. Renewal Application: When state law requires renewal, mark "renewal" on the application page. Submit all documents required for an initial application with additions to the previously filed documents underlined. Changes must be clearly marked so that the change is noticed easily. File a renewal application before the prior registration has expired. If the prior registration has expired, mark "Registration of an Offer or Sale of Franchises" on the facing page and pay the fee charged for initial registrations. Redlining and bracketing changes from the last filing will speed a re-registration. Do not mark the amendment boxes on the application page on the first renewal filing even if documents are revised.

150. "Disclose" means to state all material facts in an accurate and unambiguous manner. Disclose clearly, concisely and in a narrative form that is understandable by a person unfamiliar with the franchise business. For clear and concise disclosure avoid legal antiques¹ and repetitive phrases.² When possible, use active, not passive voice.³ Limit the length and complexity of disclosure through careful organization of information in the disclosure. Avoid technical language and unnecessary detail. Make the format and chronological order consistent within each Item.

160. Since prospective franchisees must have sufficient disclosure to understand economic commitments and to develop a business plan, Items 5, 6, 7, and 8 must disclose the minimum and maximum franchisee cost. The franchisor should provide reasonably available information to allow franchisees to forecast future charges listed in

these Items and to be paid to persons who are independent of the franchisor. Future payments to the franchisor should be specific as is required by individual Items.

170. The disclosure for each UFOC Item should be separately titled and in the required order. Do not repeat the UFOC question in the offering circular. Respond to each question fully. If the disclosure is not applicable, respond in the negative, but if an answer is required "if applicable," respond only if the requested information applies. Do not qualify a response with a reference to another document unless permitted by the instructions to that Item.

180. For each Item in the UFOC, type the Requirement's Item title and number. Sub-items may be designated by descriptive headings, but do not use sub-item letters and numbers.

190. Separate documents (for example, a confidential operations manual) must not make representations or impose terms that contradict or are materially different from the disclosure in the offering circular.

200. Use 8 1/2 by 11 inch paper for the entire application.

210. When the applicant is a master franchisor seeking to sell subfranchises, references in these requirements and instructions to "franchisee" include the subfranchisor unless the language context requires a different meaning.

220. The offer of subfranchises is an offer separate from the offer of franchises and usually requires a separate registration or exemption. A single application may register the sale of single unit and multi-unit franchises if the offering circular is not confusing.

230. When the applicant is a subfranchisor, disclose to the extent applicable the same information concerning the subfranchisor that is required about the franchisor.

240. In offerings by a subfranchisor, "franchisor" means both the franchisor and subfranchisor.

250. When state requirements conflict with these Guidelines, the state requirements control. The State Administrator may modify or waive these Guidelines or may require additional documentation or information.

260. Grossly deficient applications may be rejected summarily by the administrator as incomplete for filing. It is not the function of an administrator to prepare, in effect, an applicant's application. The additional examiner time reviewing the grossly deficient product delays the processing of diligently prepared and pursued applications.

265. These Guidelines are effective six months after the Federal Trade Commission and each NASAA member whose jurisdiction requires presale registration of a franchise adopts them. In any event, these Guidelines will be effective no earlier than January 1, 1994 and no later than January 1, 1995. After the effective date of these Guidelines, all initial franchise applications, renewals and re-registrations must comply with these Guidelines.

270. The Guidelines that continue after these instructions use the following format:

- (a) The title of the Item follows the Item number. It is capitalized and centered on the page.
- (b) The "Item" is a restatement of the Uniform Franchise Offering Circular ("UFOC") Item Requirement. It is capitalized and follows the title of the Item.
- (c) The "Instruction" appears beneath the Item. It explains portions of the Item Requirements.
- (d) The "Sample Answer" at the end of each Item provides sample disclosures. Double horizontal lines divide the Sample Answer from the Instructions.

REQUIREMENTS FOR PREPARATION
OF A UNIFORM FRANCHISE OFFERING CIRCULAR

COVER PAGE: The state cover page of the offering circular must state:

1. The title in boldface type: **FRANCHISE OFFERING CIRCULAR**
2. The franchisor's name, type of business organization, principal business address and telephone number.
3. A sample of the primary business trademark, logotype, trade name, or commercial label or symbol under which the franchisee will conduct its business. (Place in upper left-hand corner of the cover page.)
4. A brief description of the franchised business.
5. The total amounts in Items 5 and 7 of the offering circular: Franchisee's Initial Franchise Fee or Other Payment and Franchisee's Initial Investment.
6. The following statements:

Information comparing franchisors is available. Call the state administrators listed in Exhibit ____ or your public library for sources of information.

Registration of this franchise by a state does not mean that the state recommends it or has verified the information in this offering circular. If you learn that anything in the offering circular is untrue, contact the Federal Trade Commission and (State or Provincial authority).

7. Effective Date: (Leave blank until notified of effectiveness by state regulatory authority.)

Cover Page Instructions:

- i. Present information in the required order. Except for risk factors or when instructed by the examiner, do not capitalize or underline.
- ii. The estimated cash investment should agree with the Item 7 total. This total should represent the franchisee's entire initial investment minus only exclusions allowed by Item 7. Do not state what the total includes.
- iii. Limit the cover page disclosure to one page unless risk factors require additional space. Disclosure on the cover page should be brief. Limit the description of the business to the product or service offered by the franchisor. Unless required by a state regulator, do not disclose financing arrangements or the franchisee's right to use the trademark. Exclude non-required information unless necessary as a risk factor or required by a state regulator.
- iv. If applicable, disclose the following risk factors using the following language on the cover:

1. THE FRANCHISE AGREEMENT PERMITS THE FRANCHISEE (TO SUE)

(TO ARBITRATE WITH)_____ ONLY IN_____. OUT OF STATE
(ARBITRATION) (LITIGATION) MAY FORCE YOU TO ACCEPT A LESS FAVORABLE
SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE (TO SUE) (TO ARBITRATE
WITH)_____ IN _____ THAN IN YOUR HOME STATE.

2. THE FRANCHISE AGREEMENT STATES THAT LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.

3. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

v. In addition to the above language, disclose other risk factors required by a state regulator.

vi. Use capital letters for risk factor disclosure.

vii. In multistate offerings in which the franchisor uses a single offering circular, refer to an exhibit to the offering circular for a list of State or Provincial authority.

Sample Cover Page:

(Logo)

Franchise Offering Circular

Belmont Mufflers, Inc.
A Minnesota Corporation
First Street
Jackson, Minnesota 55000
(612) 266-3430

The franchisee will repair and install motor vehicle exhaust systems. The initial franchise fee is \$10,000. The estimated initial investment required ranges from \$132,700 to \$160,200. This sum does not include rent for the business location.

Risk Factors:

THE FRANCHISE AGREEMENT REQUIRES THAT ALL DISAGREEMENTS BE SETTLED BY ARBITRATION IN MINNESOTA. OUT OF STATE ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO ARBITRATE WITH US IN MINNESOTA THAN IN YOUR HOME STATE.

Information about comparisons of franchisors is available. Call the state administrators listed in Exhibit ____ or your public library for sources of information.

Registration of this franchise with the state does not mean that the state recommends it or has verified the information in this offering circular. If you learn that anything in this offering circular is untrue, contact the Federal Trade Commission and (State or Provincial authority).

Effective Date:

TABLE OF CONTENTS: INCLUDE A TABLE OF CONTENTS BASED ON THE REQUIREMENTS OF THIS OFFERING CIRCULAR.

TABLE OF CONTENTS INSTRUCTION:

- i. Refer to UFOC Items and state the page where each UFOC Item disclosure begins. List exhibits by letter. Use the following format:

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE</u>
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SAMPLE TABLE OF CONTENTS:

TABLE OF CONTENTS

ITEM	PAGE
1 The Franchisor, its Predecessors and Affiliates	
2 Business Experience.....	
3 Litigation	
4 Bankruptcy	
5 Initial Franchise Fee	
6 Other Fees	
7 Initial Investment.....	
8 Restrictions on Sources of Products and Services.....	
9 Franchisee's Obligations	
10 Financing.....	
11 Franchisor's Obligations	
12 Territory.....	
13 Trademarks	
14 Patents, Copyrights and Proprietary Information	
15 Obligation to Participate in the Actual Operation of the Franchise Business.....	

16	Restrictions on What the Franchisee May Sell.....
17	Renewal, Termination, Transfer and Dispute Resolution
18	Public Figures.....
19	Earnings Claims.....
20	List of Outlets
21	Financial Statements
22	Contracts
23	Receipt.....

Exhibits

A.	Franchise Agreement.....
B.	Equipment Lease
C.	Lease for Premises
D.	Loan Agreement

Item 1

THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

Item 1 Instructions:

- i. Use the word "we," initials or one or two words to refer to the franchisor. Use different initials or a different one or two words to refer to other persons contracting with the franchisee under the franchise agreement. Except in the 23 Item titles, use these initials or the word(s) to describe these persons or entities throughout the offering circular.
- ii. Define the franchisee as "you" and use this description throughout the offering circular. If the franchisee could be a corporation, partnership or other entity, disclose whether "you" includes the franchisee's owners.
- iii. "Predecessor" in Item 1 means a person from whom the franchisor acquired directly or indirectly the major portion of the franchisor's assets.
- iv. The disclosure regarding predecessors need only cover the 10 year period immediately before the close of the franchisor's most recent fiscal year.
- v. Affiliate in Item 1 means a person (other than a natural person) controlled by, controlling or under common control with the franchisor, which is offering franchises in any line of business or is providing products or services to the franchisees of the franchisor.

DISCLOSE IN SUMMARY FORM:

- A. THE NAME OF THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES.
- B. THE NAME UNDER WHICH THE FRANCHISOR DOES OR INTENDS TO DO BUSINESS.

Item 1B Instruction:

If the franchisor does business under a name different from the name disclosed in Item 1A, state that other name. If not, state that the franchisor does not do business under another name.

- C. THE PRINCIPAL BUSINESS ADDRESS OF THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES, AND THE FRANCHISOR'S AGENT FOR SERVICE OF PROCESS.

Item 1C Instructions:

- i. Principal business address means "home office" in the United States, not in the state for which the offering circular was prepared. If appropriate, also disclose the location of an international "home office." The business address can not be a post office box.
- ii. In a multi-state offering in which the agent for service of process is required, the franchisor may use an exhibit or the acknowledgement of receipt to disclose this agent.

- D. THE BUSINESS FORM OF THE FRANCHISOR

Item 1D Instruction:

- i. Disclose the state of incorporation or business organization and the type of business organization.

- E. THE FRANCHISOR'S BUSINESS AND THE FRANCHISES TO BE OFFERED IN THIS STATE.

Item 1E Instructions:

Disclose the following:

- i. That the franchisor sells or grants franchises;
- ii. Whether the franchisor operates businesses of the type being franchised;
- iii. The franchisor's other business activities;
- iv. The business to be conducted by the franchisees;
- v. The general market for the product or service to be offered by the franchisee. (For example, is the market developed or developing? Will the goods be sold primarily to a certain group? Are sales seasonal?)
- vi. In general terms any regulations specific to the industry in which the franchise business operates. It is not necessary to include laws or regulations that apply to businesses generally.
- vii. A general description of the competition.

F. THE PRIOR BUSINESS EXPERIENCE OF THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES INCLUDING:

(1) THE LENGTH OF TIME THE FRANCHISOR HAS CONDUCTED A BUSINESS OF THE TYPE TO BE OPERATED BY THE FRANCHISEE.

(2) THE LENGTH OF TIME EACH PREDECESSOR AND AFFILIATE HAS CONDUCTED A BUSINESS OF THE TYPE TO BE OPERATED BY THE FRANCHISEE.

(3) THE LENGTH OF TIME THE FRANCHISOR HAS OFFERED FRANCHISES FOR THE SAME TYPE OF BUSINESS AS THAT TO BE OPERATED BY THE FRANCHISEE.

(4) THE LENGTH OF TIME EACH PREDECESSOR AND AFFILIATE OFFERED FRANCHISES FOR THE SAME TYPE OF BUSINESS AS THAT TO BE OPERATED BY THE FRANCHISEE.

(5) WHETHER THE FRANCHISOR HAS OFFERED FRANCHISES IN OTHER LINES OF BUSINESS, INCLUDING:

(A) A DESCRIPTION OF EACH OTHER LINE OF BUSINESS;

(B) THE NUMBER OF FRANCHISES SOLD IN EACH OTHER LINE OF BUSINESS; AND

(B) THE LENGTH OF TIME THE FRANCHISOR HAS OFFERED EACH OTHER FRANCHISE.

(6) WHETHER EACH PREDECESSOR AND AFFILIATE OFFERED FRANCHISES IN OTHER LINES OF BUSINESS, INCLUDING:

(A) A DESCRIPTION OF EACH OTHER LINE OF BUSINESS;

(B) THE NUMBER OF FRANCHISES SOLD IN EACH OTHER LINE OF BUSINESS; AND

(B) THE LENGTH OF TIME EACH PREDECESSOR AND AFFILIATE OFFERED EACH OTHER FRANCHISE.

Item 1F Instruction:

Limit disclosure about predecessors to the time before the franchisor acquired the predecessor's assets. Thus, under the 10 year limitation, if a franchisor acquired the assets of a predecessor 8 years ago, the disclosure about the predecessor should cover only the 2 year period before the acquisition.

Sample Answer

To simplify the language in this offering circular "Belmont" means Belmont Mufflers Inc., the franchisor. "You" means the person who buys the franchise. Belmont is a Minnesota corporation that was incorporated on September 3, 1963. Belmont does business as Belmont Muffler Shops. Our principal business address is 111 First Street, Jackson, Minnesota 55555.

Belmont's agent for service of process is disclosed in Exhibit _____.

Belmont currently operates 12 Belmont Muffler Shops and sells pipe bending machines and mufflers to various muffler shops.

Belmont franchises the right to sell and install mufflers for the public. You must honor our guarantee to replace mufflers or exhaust pipes that wear out if the vehicle ownership has not changed. Belmont's franchisees often operate their muffler shop franchise with their service stations or tire center. Your competitors include department store service departments, service stations and other national chains of muffler shops. Exhibit is attached to this offering circular and contains a summary of the special regulations for muffler installation in your state.

During the past 5 years Belmont has operated 7 muffler shops that are similar to the franchised shops being offered. All these shops are located in urban areas, have approximately xxxxx square feet of floor space and are located on busy streets. An additional 3 muffler shops were opened in 1990. From 1968 to 1973, Belmont offered franchises for "Repair-All Transmission Shops." "Repair-All" franchisees repaired and replaced motor vehicle transmissions under a marketing plan similar to the franchise in this offering circular. Belmont sold 40 of these franchises primarily in the states of Minnesota, Michigan, Wisconsin and Illinois. In 1973, Belmont sold this transmission repair company to CTF Inc.

Item 2

BUSINESS EXPERIENCE

LIST BY NAME AND POSITION THE DIRECTORS, TRUSTEES AND/OR GENERAL PARTNERS, THE PRINCIPAL OFFICERS AND OTHER EXECUTIVES OR SUBFRANCHISORS WHO WILL HAVE MANAGEMENT RESPONSIBILITY RELATING TO THE FRANCHISES OFFERED BY THIS OFFERING CIRCULAR. LIST ALL FRANCHISE BROKERS. STATE EACH PERSON'S PRINCIPAL OCCUPATIONS AND EMPLOYERS DURING THE PAST FIVE YEARS.

Item 2 Instructions:

- i. Principal officers include the chief executive and chief operating officer, the president, financial, franchise marketing, training and franchise operations officers.
- ii. First disclose the position and the name of the person holding it. Underline this information; then skip one line.
- iii. Disclose the beginning date and departure date for each job held in the five year period whether or not this date is within the past five years. Disclose the location of the job.
- iv. Do not disclose home addresses, home telephones, social security numbers or birth dates in this Item.
- v. Disclose the required information concerning the franchise broker's directors, principal officers and executives with management responsibility to market or service the franchises.
- vi. In a multi-state offering in which the franchisor uses a single offering circular and franchise brokers and executives with direct management responsibility to the franchisees differs from state to state, use an exhibit to refer to these personnel.

Sample Answer

President: Jane J. Doe

From June, 1978, until April, 1986, Ms. Doe was Vice-President of Atlas Inc., a Houston, Texas based manufacturer of automobile wheels. In April, 1986, she joined Belmont as a Director and Vice President. She was promoted to president in June, 1987.

Item 3

LITIGATION

DISCLOSE WHETHER THE FRANCHISOR, ITS PREDECESSOR, A PERSON IDENTIFIED IN ITEM 2 OR AN AFFILIATE OFFERING FRANCHISES UNDER THE FRANCHISOR'S PRINCIPAL TRADEMARK:

- A. HAS AN ADMINISTRATIVE, CRIMINAL OR MATERIAL CIVIL ACTION PENDING AGAINST THAT PERSON ALLEGING A VIOLATION OF A FRANCHISE, ANTITRUST OR SECURITIES LAW, FRAUD, UNFAIR OR DECEPTIVE PRACTICES, OR COMPARABLE ALLEGATIONS. IN ADDITION, INCLUDE ACTIONS OTHER THAN ORDINARY ROUTINE LITIGATION INCIDENTAL TO THE BUSINESS WHICH ARE SIGNIFICANT IN THE CONTEXT OF THE NUMBER OF FRANCHISEES AND THE SIZE, NATURE OR FINANCIAL CONDITION OF THE FRANCHISE SYSTEM OR ITS BUSINESS OPERATIONS. IF SO, DISCLOSE THE NAMES OF THE PARTIES, THE FORUM, NATURE, AND CURRENT STATUS OF THE PENDING ACTION. FRANCHISOR MAY INCLUDE A SUMMARY OPINION OF COUNSEL CONCERNING THE ACTION IF A CONSENT TO USE OF THE SUMMARY OPINION IS INCLUDED AS PART OF THIS OFFERING CIRCULAR.
- B. HAS DURING THE 10 YEAR PERIOD IMMEDIATELY BEFORE THE DATE OF THE OFFERING CIRCULAR BEEN CONVICTED OF A FELONY OR PLEADED NOLO CONTENDERE TO A FELONY CHARGE; OR BEEN HELD LIABLE IN A CIVIL ACTION BY FINAL JUDGMENT OR BEEN THE SUBJECT OF A MATERIAL ACTION INVOLVING VIOLATION OF A FRANCHISE, ANTITRUST OR SECURITIES LAW, FRAUD, UNFAIR OR DECEPTIVE PRACTICES, OR COMPARABLE ALLEGATIONS. IF SO, DISCLOSE THE NAMES OF THE PARTIES, THE FORUM AND DATE OF CONVICTION OR DATE JUDGMENT WAS ENTERED, PENALTY OR DAMAGES ASSESSED AND/OR TERMS OF SETTLEMENTS.
- C. IS SUBJECT TO A CURRENTLY EFFECTIVE INJUNCTIVE OR RESTRICTIVE ORDER OR DECREE RELATING TO THE FRANCHISE OR UNDER A FEDERAL, STATE OR CANADIAN FRANCHISE, SECURITIES, ANTITRUST, TRADE REGULATION OR TRADE PRACTICE LAW RESULTING FROM A CONCLUDED OR PENDING ACTION OR PROCEEDING BROUGHT BY A PUBLIC AGENCY. IF SO, DISCLOSE THE NAME OF THE PERSON, THE PUBLIC AGENCY AND COURT, A SUMMARY OF THE ALLEGATIONS OR FACTS FOUND BY THE AGENCY OR COURT AND THE DATE, NATURE, TERMS AND CONDITIONS OF THE ORDER OR DECREE.

Item 3 Definitions:

- i. For purposes of these instructions to Item 3, "franchisor" includes the franchisor, its predecessors, persons identified in Item 2 and affiliates offering franchises under the franchisor's principal trademarks.
- ii. Action: Action includes complaints, cross claims, counterclaims, and third party complaints in a judicial proceeding, and their equivalents in an administrative action or arbitration proceeding. The franchisor may disclose its counterclaims. Omit actions that were dismissed by final judgment without liability of or entry of an adverse order against the franchisor.
- iii. Included in the definition of material is an action or an aggregate of actions if a reasonable prospective franchisee would consider it important in making a decision about the franchised business.
- iv. In this Item, settlement of an action does not diminish its materiality if the franchisor agrees to pay material consideration or agrees to be bound by obligations which are materially adverse to its interests.
- v. "Ordinary routine litigation" means actions which ordinarily result from the business and which do not depart from the normal kinds of actions in the business.

- vi. "Held liable" includes a finding by final judgment in a judicial, binding arbitration or administrative proceeding that the franchisor, as a result of claims or counterclaims must pay money or other consideration, must reduce an indebtedness by the amount of an award, cannot enforce its rights, or must take action adverse to its interests.
- vii. "Currently Effective": An injunctive or restrictive order or decree is "currently effective" unless it has been vacated or rescinded by a court or by the issuing public agency. An order that has expired by its own terms is not "currently effective." If the named party(s) have fully complied with an order (for example, through registration of its franchise offer), the order is not "currently effective." A party has not fully complied with an order to act or to refrain from an act (for example to comply with the franchise law or to refrain from violating the franchise law) until the order expires by its own terms.

Item 3 Instructions:

Civil litigation, or Injunctive or Restrictive Order:

- viii. Use sample answer 3-1 for a negative response to Item 3 if the franchisor has never been named in litigation or if the only litigation naming the franchisor is outside the scope of Item 3.
- ix. Disclose in the same order as the instructions below appear.
- x. Title each action and state its case number or citation in parentheses. Underline the title of the action.
- xi. For each action state the action's initial filing date and the opposing party's name and relationship with the franchisor. Relationships include competitor, supplier, lessor, franchisee, former franchisee, or class of franchisees.
- xii. Summarize the legal and factual nature of each claim in the action.
- xiii. Summarize the relief sought or obtained. Summarize conclusions of law or fact.
- xiv. State that other than these (list number of actions) no litigation is required to be disclosed in this offering circular.

Criminal convictions or Pleas:

- xv. Disclose in the same order as the following instructions appear.
- xvi. Title each action and state its citation in parentheses. Underline the title of the action.
- xvii. Name the person convicted or who pleaded.
- xviii. Next, state the crime or violation and the date of conviction
- xix. Next, disclose the sentence or penalty imposed.
- xx. Lastly, state that other than these (list the number of actions) actions, no litigation is required to be disclosed in this offering circular.

Sample Answer 3-1

No litigation is required to be disclosed in this offering circular.

Sample Answer 3-2

Doe v. Belmont Muffler Service, Inc. (cite) On March 1, 1985, our franchisee, Donald Doe, sought to enjoin us from terminating him for nonpayment of royalty fees. Doe alleged _____. On April 3, 1986, Doe withdrew the case when we repurchased his franchise for \$90,000 and agreed not to enforce non-compete clauses against him.

Indiana v. Belmont Muffler Service, Inc. (cite) On April 1, 1985, the Attorney General of Indiana sought to enjoin us from offering unregistered franchises and from using false income representations. The Attorney General alleged that the earnings claims were false because . . . The court found that we had offered franchises, that the offers were not registered and that we had made the alleged false representations in our earnings claims. The court enjoined us from repeating those acts.

Other than these 2 actions, no litigation is required to be disclosed in this offering circular.

Item 4

BANKRUPTCY

STATE WHETHER THE FRANCHISOR, ITS AFFILIATE, ITS PREDECESSOR, OFFICERS OR GENERAL PARTNER DURING THE 10 YEAR PERIOD IMMEDIATELY BEFORE THE DATE OF THE OFFERING CIRCULAR (A) FILED AS DEBTOR (OR HAD FILED AGAINST IT) A PETITION TO START AN ACTION UNDER THE U.S. BANKRUPTCY CODE; (B) OBTAINED A DISCHARGE OF ITS DEBTS UNDER THE BANKRUPTCY CODE; OR (C) WAS A PRINCIPAL OFFICER OF A COMPANY OR A GENERAL PARTNER IN A PARTNERSHIP THAT EITHER FILED AS A DEBTOR (OR HAD FILED AGAINST IT) A PETITION TO START AN ACTION UNDER THE U.S. BANKRUPTCY CODE OR THAT OBTAINED A DISCHARGE OF ITS DEBTS UNDER THE BANKRUPTCY CODE DURING OR WITHIN 1 YEAR AFTER THE OFFICER OR GENERAL PARTNER OF THE FRANCHISOR HELD THIS POSITION IN THE COMPANY OR PARTNERSHIP. IF SO, DISCLOSE THE NAME OF THE PERSON OR COMPANY THAT WAS THE DEBTOR UNDER THE BANKRUPTCY CODE, THE DATE OF THE ACTION AND THE MATERIAL FACTS.

Item 4 Instructions:

- i. First, name the party that filed (or had filed against it) the petition in bankruptcy and the party's relationship to the franchisor. If the debtor in a bankruptcy proceeding was or is affiliated with the franchisor, state the relationship. If the debt or in a bankruptcy proceeding is unaffiliated with the franchisor, state the name, address and principal business of the bankrupt company.
 - ii. Disclose that the entity filed bankruptcy or reorganization under the bankruptcy law and the date of the original filing.
 - iii. Identify the bankruptcy court, and the case name and number. Put this information in parentheses.
 - iv. State the date on which the debtor obtained a discharge in bankruptcy (including discharges under Chapter 7 and confirmation of any plans of reorganization under Chapters 11 and 13 of the U.S. Bankruptcy Code).
 - v. Disclose other material facts.
 - vi. Cases, actions and other proceedings under the laws of foreign nations relating to bankruptcy proceedings should be included in answers, where responses are required, as if those cases, actions and proceedings took place under the U.S. Bankruptcy Code .
 - vii. If information is disclosed in this Item, at the end of the disclosure add sample answer 4-1 with the qualification "other than these actions."
 - viii. Use Sample Answer 4-1 if no person listed in Items 1 or 2 has been involved as a debtor in bankruptcy proceedings or any person listed in Items 1 or 2 has been involved as a debtor in bankruptcy proceedings but the bankruptcy proceedings (under the U.S. Bankruptcy Code or its predecessor, the National Bankruptcy Act of 1898) were discharged more than 10 years ago. "Person" includes natural persons and legal entities listed in Items 1 and 2. Person does not include anyone acting solely as the franchisor's agent for service of process.
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Sample Answer 4-1

No person previously identified in Items 1 or 2 of this offering circular has been involved as a debtor in proceedings under the U.S. Bankruptcy Code required to be disclosed in this Item.

Sample Answer 4-2

On March 2, 1984, Belmont filed a petition to reorganize under Chapter 11 of the U.S. Bankruptcy Code. We were allowed to continue to operate under bankruptcy court supervision. On October 2, 1985, the bankruptcy court approved our plan of reorganization and discharged the proceedings. (US Bankruptcy Court for the District of _____ Case B 84-301).

Belmont's present president, Roger Rowe, was president of Acme Muffler Service, Inc., a Houston, Texas based manufacturer of exhaust systems, from July 1, 1978, through June 14, 1983. On June 6, 1983, an involuntary petition under the U.S. Bankruptcy Code was filed against Acme by its creditors. On July 14, 1983, the court entered an order of relief. Acme sold its assets and was dissolved.

Other than these 2 actions, no person previously identified in Items 1 or 2 of this offering circular has been involved as a debtor in proceedings under the U.S. Bankruptcy Code required to be disclosed in this Item.

Item 5

INITIAL FRANCHISE FEE

DISCLOSE THE INITIAL FRANCHISE FEE AND STATE THE CONDITIONS WHEN THIS FEE IS REFUNDABLE.

Item 5 Instructions:

- i. "Initial fee" includes all fees and payments for services or goods received from the franchisor before the franchisee's business opens. "Initial fee" includes all fees and payments whether payable in lump sum or installments.
- ii. If the initial fee is not uniform, disclose the formula or the range of initial fees paid in the fiscal year before the application date and the factors that determined the amount.
- iii. Disclose installment payment terms in this Item or in Item 10.

Sample Answer 5-1

All franchisees pay a \$10,000 lump sum franchise fee when they sign the franchise agreement. Belmont will refund the entire amount if we do not approve your application within 45 days. Belmont will refund \$9,000 of this fee if you do not satisfactorily complete your 2-week training. There are no refunds under other circumstances.

Sample Answer 5-2

You must pay a franchise license fee of \$_____ per thousand licensed drivers who reside within your exclusive area when the franchise agreement is signed. The number of licensed drivers is determined by the latest abstract of the state agency which issues driver's licenses. The minimum fee is \$20,000. When you send your application, you must pay a non-refundable \$500 application fee. You must pay an additional \$10,000 when you receive your equipment. The balance of your fee is payable in 12 equal monthly installments of \$_____. The first installment payment is due 1 year after your shop opens. Belmont charges 10% annual interest on the unpaid balance. Interest compounds daily and accrues from the date that you receive your equipment. All buyers pay this uniform fee and receive the same financing terms on the fee. If your application is not accepted, Belmont retains the \$500 for investigative costs, but you are not liable for the \$19,500 remainder. Belmont does not give refunds under other circumstances.

Item 6

OTHER FEES

DISCLOSE OTHER RECURRING OR ISOLATED FEES OR PAYMENTS THAT THE FRANCHISEE MUST PAY TO THE FRANCHISER OR ITS AFFILIATES OR THAT THE FRANCHISER OR ITS AFFILIATES IMPOSE OR COLLECT IN WHOLE OR IN PART ON BEHALF OF A THIRD PARTY. INCLUDE THE FORMULA USED TO COMPUTE THESE OTHER FEES AND PAYMENTS. IF ANY FEE IS REFUNDABLE, STATE THE CONDITIONS WHEN EACH FEE OR PAYMENT IS REFUNDABLE.

Item 6 Instructions:

- i. First disclose fees in tabular form. Use footnotes or a "remarks" column to elaborate on the information in the table or to disclose caveats. If elaborations are lengthy, use footnotes instead of a remarks column.
- ii. Disclose the amount of each fee. A dollar amount or a percentage of gross sales is acceptable if the term gross sales is defined. If dollar amounts may increase, disclose the formula which determines the increase or the maximum amount of the increase.
- iii. Disclose the due date for recurring payments.
- iv. If all fees are payable to only the franchiser, disclose this in a footnote.
- v. If all fees are imposed and collected by the franchiser, disclose this in a footnote.
- vi. If all fees are non-refundable, state this in a footnote.
- vii. Disclose the voting power of franchiser owned outlets on any fees imposed by cooperatives. If franchiser outlets have controlling voting power, disclose a range for the fee. Disclose this information in a footnote or a "remarks" column.
- viii. The franchiser need not repeat information contained in Items 8 & 9, but the table should direct the franchisees to those Items.
- ix. Examples of fees are royalty, lease negotiation, construction, remodeling, additional training, advertising, group advertising, additional assistance, audit, accounting/inventory, and transfer and renewal fee.

Sample Answer 6-1

Name of fee	Amount	Due Date	Remarks
Royalty ¹	4% of total gross sales	Payable monthly on the 10th day of the next month	Gross sales includes all revenue from the franchise location. Gross sales does not include sales tax or use tax.
Advertising ¹	2% of total gross	Same as Royalty fee	

	sales		Franchisees may form an advertising cooperative and establish local advertising fees. Company owned stores have no vote in these cooperatives.
Cooperative Advertising ¹	Maximum - 2% of total gross sales	Established by franchisees	
Additional Training ¹	\$1,000 per person	2 weeks prior to beginning of training	Belmont trains 2 persons free - See Item 11
Additional Assistance ¹	\$500 per day	30 days after billing	Belmont provides opening assistance free-See Item 11
Transfer ¹	\$1,000	Prior to consummation of transfer	Payable when you sell your franchise. No charge if franchise transferred to a corporation which you control

¹ All fees are imposed by and are payable to Belmont. All fees are non-refundable.

Name of fee	Amount	Due Date	Remarks
Audit ¹	Cost of audit plus 10% interest on underpayment ²	30 days after billing	Payable only if audit shows an understatement of at least 2% of gross sales for any month.
Renewal	\$1,000	30 days	

Fee¹

before
renewal

¹ All fees are imposed by and are payable to Belmont. All fees are non-refundable.

² Interest begins from the date of the underpayment.

Item 7

INITIAL INVESTMENT

DISCLOSE THE FOLLOWING EXPENDITURES STATING TO WHOM THE PAYMENTS ARE MADE, WHEN PAYMENTS ARE DUE, WHETHER EACH PAYMENT IS REFUNDABLE, THE CONDITIONS WHEN EACH PAYMENT IS REFUNDABLE, AND, IF PART OF THE FRANCHISEE'S INITIAL INVESTMENT IN THE FRANCHISE MAY BE FINANCED, AN ESTIMATE OF THE LOAN REPAYMENTS, INCLUDING INTEREST:

- A. REAL PROPERTY, WHETHER PURCHASED OR LEASED. IF NEITHER ESTIMABLE NOR DESCRIBABLE BY A LOW-HIGH RANGE, DESCRIBE REQUIREMENTS, SUCH AS PROPERTY TYPE, LOCATION AND BUILDING SIZE.
- B. EQUIPMENT, FIXTURES, OTHER FIXED ASSETS, CONSTRUCTION, REMODELING, LEASEHOLD IMPROVEMENTS AND DECORATING COSTS, WHETHER PURCHASED OR LEASED.
- C. INVENTORY REQUIRED TO BEGIN OPERATION.
- D. SECURITY DEPOSITS, UTILITY DEPOSITS, BUSINESS LICENSES, OTHER PREPAID EXPENSES.
- E. ADDITIONAL FUNDS REQUIRED BY THE FRANCHISEE BEFORE OPERATIONS BEGIN AND DURING THE INITIAL PHASE OF THE FRANCHISE.
- F. OTHER PAYMENTS THAT THE FRANCHISEE MUST MAKE TO BEGIN OPERATIONS.

Item 7 Instructions:

- i. Begin disclosure by listing expenditures in tabular form. List preopening expenses first. Use footnotes to comment on expected expenditures.
- ii. Disclose payments required by the franchise agreement and all costs necessary to begin operation of the franchise and operate the franchise during the initial phase of the business. A reasonable time for the initial phase of the business is at least 3 months or a reasonable period for the industry. Include an entry titled "additional funds" and disclose the length of the initial phase in the entry.
- iii. If a specific expenditure amount is not ascertainable, use a low-high range based on the franchisor's current experience. If real property costs can not be estimated in a low-high range, disclose the approximate size of the property and building involved. Describe the probable location of the building (for example, strip shopping center, mall, downtown, rural or highway).

iv. The franchisor may include additional expenditure tables to show expenditure variations caused by differences in site location, premise size, etc. Describe in general terms the factors, basis and experience that the franchisor considered or relied upon in formulating the amount required for additional funds.

v. If the franchisor or an affiliate finances part of the initial investment, state the expenditures that it will finance. State the required down payment, annual percentage rate of interest, rate factors, and the estimated loan repayments. Make the discussion brief, and refer to Item 10.

vi. Total the initial investment. This total should be the same as the total investment on the offering circular cover.

SAMPLE ANSWER 7

YOUR ESTIMATED INITIAL INVESTMENT

	AMOUNT	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
INITIAL FRANCHISE FEE	\$20,000 (Note 1)	Lump Sum At Signing of Franchise Agreement		Belmont, Inc.
TRAVEL AND LIVING EXPENSES WHILE TRAINING	\$ 2,500 to \$ 5,000	As Incurred	During Training	Airlines, Hotels & Restaurants
REAL ESTATE AND IMPROVEMENTS	(Note 2)	(Note 2)	(Note 2)	(Note 2)
EQUIPMENT	\$40,000 (Note 3)	Lump Sum Prior to Opening Belmont or vendors		
SIGNS	\$ 2,200	Lump Sum Prior to Opening Abbey Sign Company		Suppliers, Utilities, etc.
MISCELLANEOUS OPENING COSTS	\$ 8,000 (Note 4)	As Incurred	As Incurred	
OPENING Inventory	\$ 8,000 (Note 5)	Lump Sum Prior to Opening Belmont or vendors		
ADVERTISING Fee - 3 months	\$ 500	Monthly		Belmont
ADDITIONAL Funds - 3 months	\$50,000 to \$ 75,000 (Note 6)	As Incurred	As Incurred	Employees, Suppliers Utilities
TOTAL	\$ 132,700 to \$160,200 (Note 7)	(Does not include real estate costs)		

Notes:

(1) See Item 5 for the conditions when this fee is partly refundable. Belmont does not finance any fee.

(2) If you do not own adequate shop space, you must lease the land and building for the Belmont Muffler Shop. Typical locations are light industrial and commercial areas. The typical Belmont Muffler Shop has 5,000 - 8,000 square feet. Former three or four bay gasoline service stations have been converted with relative ease into Belmont Muffler Shops. Rent is estimated to be between \$12,000 - 20,000 per year depending on factors such as size, condition and location of the leased premises.

(3) This payment is fully refundable before equipment installation. After installation, Belmont deducts \$3,000 installation costs from your refund.

(4) Includes security deposits, utility costs, incorporation fee.

(5) This payment is fully refundable before Belmont delivers your inventory. After delivery Belmont deducts a 10% restocking fee from your refund.

(6) This estimates your initial start up expenses. These expenses include payroll costs. These figures are estimates and Belmont cannot guarantee that you will not have additional expenses starting the business. Your costs will depend on factors such as: how much you follow Belmont's methods and procedures; your management skill, experience and business acumen; local economic conditions; the local market for our product; the prevailing wage rate; competition; and the sales level reached during the initial period.

(7) Belmont relied on its 30 years of experience in the muffler business to compile these estimates. You should review these figures carefully with a business advisor before making any decision to purchase the franchise.

(8) Belmont does not offer direct or indirect financing to franchisees for any items.

Item 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

DISCLOSE FRANCHISEE OBLIGATIONS TO PURCHASE OR LEASE FROM THE FRANCHISOR ITS DESIGNEE OR FROM SUPPLIERS APPROVED BY THE FRANCHISOR OR UNDER THE FRANCHISOR'S SPECIFICATIONS. FOR EACH OBLIGATION DISCLOSE:

- A. THE GOODS, SERVICES, SUPPLIES, FIXTURES, EQUIPMENT, INVENTORY, COMPUTER HARDWARE AND SOFTWARE OR REAL ESTATE RELATING TO ESTABLISHING OR OPERATING THE FRANCHISED BUSINESS.
- B. THE MANNER IN WHICH THE FRANCHISOR ISSUES AND MODIFIES SPECIFICATIONS OR GRANTS AND REVOKES APPROVAL TO SUPPLIERS.
- C. WHETHER, AND FOR WHAT CATEGORIES OF GOODS AND SERVICES, THE FRANCHISOR OR ITS AFFILIATES ARE APPROVED SUPPLIERS OR THE ONLY APPROVED SUPPLIERS.
- D. WHETHER, AND IF SO, THE PRECISE BASIS BY WHICH THE FRANCHISOR OR ITS AFFILIATES WILL OR MAY DERIVE REVENUE OR OTHER MATERIAL CONSIDERATION AS A RESULT OF REQUIRED PURCHASES OR LEASES.
- E. THE ESTIMATED PROPORTION OF THESE REQUIRED PURCHASES AND LEASES TO ALL PURCHASES AND LEASES BY THE FRANCHISEE OF GOODS AND SERVICES IN ESTABLISHING AND OPERATING THE FRANCHISED BUSINESS.
- F. THE EXISTENCE OF PURCHASING OR DISTRIBUTION COOPERATIVES.

Item 8 Instructions:

- i. An obligation includes those imposed by written agreement or by the franchisor's practice. The franchisor may include the reason for the requirement.
- ii. Do not include goods or services provided as part of the franchise and without a separate charge (for example, a fee for initial training when the cost is included in the franchise fee). These fees should be described in Item 5. Do not include fees disclosed in response to Item 6.

- iii. For "precise basis," disclose the franchisor's total revenues and the franchisor's revenues from all required purchases and leases of products and services. Also, disclose the percentage of the franchisor's total revenues represented by the franchisor's revenues from required purchases or leases. If the franchisor's affiliates also sell or lease products or services to franchisees, disclose affiliate revenues from those sales or leases. These amounts should be taken from the franchisor's statement of operations (or profit and loss statement) from the most recent annual audited financial statement attached to the offering circular. If the franchisor's annual audited financial statement is not required to be attached to the offering circular or if the franchisor's affiliate sells or leases required products or services to franchisees, disclose the sources of information used in computing revenues.
- iv. State how the franchisor formulates and modifies specifications and standards imposed on franchisees.
- v. Disclose whether specifications and standards are issued to franchisees, subfranchisors, or approved suppliers.
- vi. Describe how suppliers are evaluated, approved or disapproved. Disclose whether the franchisor's criteria for supplier approval are available to franchisees. State the fees and procedure to secure approval and how approvals are revoked. State the time period when the franchisee will receive notification of approval or disapproval.
- vii. If the designated supplier will make payments to the franchisor because of transactions with franchisees, disclose the basis for the payment. Specify a percentage or a flat amount. Purchases of similar goods or services by the franchisor at a lower price than that available to franchisees is a payment.
- viii. Disclose whether the franchisor negotiates purchase arrangements with suppliers (including price terms) for the benefit of franchisees.
- ix. Disclose whether the franchisor provides material benefits (for example renewal or granting additional franchises) to a franchisee based on a franchisee's use of designated or approved sources.
- x. Use sample answer 8-1 if the response to Item 8 is negative.

Sample Answer 8-1

Belmont has no required specifications, designated suppliers, or approved suppliers for goods, services or real estate relating to your franchise business. Belmont will not derive revenue from your purchases or leases.

Sample Answer 8-2

You must purchase your pipe bending machine, hoist, cutting torch and supplies under specifications in the operations manual. These specifications include standards for delivery, performance, design and appearance. You may purchase this equipment from Belmont. In the year ending December 31, 1992, Belmont's revenues from the sale of this equipment to franchisees was \$500,000, or 5% of Belmont's total revenues of \$10,000,000. The cost of equipment purchased in accordance with specifications represents 10% of your total purchases in connection with establishment of your store.

Belmont's affiliate, Muffler Supply Co., is an approved supplier of mufflers to franchisees. In the year ending December 31, 1992, the affiliate's revenues from the sale of mufflers to franchisees was \$2,000,000. The purchase of mufflers from approved sources will represent 15 to 20% of your overall purchases in operating the store. Belmont has approved other suppliers of mufflers and exhaust pipe. If you would like to purchase these items from another supplier, you may request our "Supplier Approval Criteria and Request Form." Based on the information and samples you supply to us and your payment of a \$500 fee, we will test the items supplied and review the proposed

supplier's financial records, business reputation, delivery performance, credit rating and other information. Our review typically is completed in 30 days.

One of the approved suppliers of mufflers and exhaust pipes, Scottie's Pipes, Inc., pays Belmont a rebate of 1% of all franchisee purchases, which is deposited in the Belmont Advertising Fund. Another approved supplier, Michael's Clean-Air, Inc., pays Belmont 2% of all franchisee purchases of catalytic converters. This amount is used in Belmont's training center for classes in catalytic converter repair and replacement.

Item 9

FRANCHISEE'S OBLIGATIONS DISCLOSE THE PRINCIPAL OBLIGATIONS OF THE FRANCHISEE UNDER THE FRANCHISE AND OTHER AGREEMENTS AFTER THE SIGNING OF THESE AGREEMENTS.

Item 9 Instructions:

- i. Disclose obligations in tabular form. Refer to the section of the agreement that contains the obligation and any Item of the Offering Circular that further describes the obligation.
- ii. The table should contain a response to each category listed below. If the response to any category is that no obligation is imposed, the table should state that. Do not change the names of the categories. Fit all obligations within the listed categories. If other material obligations fall outside the scope of all of the prescribed categories, add additional categories as needed. The categories of franchisee obligations are:
 - a. Site selection and acquisition/lease
 - b. Pre-opening purchases/leases
 - c. Site development and other pre-opening requirements
 - d. Initial and ongoing training
 - e. Opening
 - f. Fees
 - g. Compliance with standards and policies/Operating Manual
 - h. Trademarks and proprietary information
 - i. Restrictions on products/services offered
 - j. Warranty and customer service requirements
 - k. Territorial development and sales quotas
 - l. Ongoing product/service purchase
 - m. Maintenance, appearance and remodeling requirements
 - n. Insurance
 - o. Advertising
 - p. Indemnification

- q. Owner's participation/management/staffing
- r. Records and reports
- s. Inspections and audits
- t. Transfer
- u. Renewal
- v. Post-termination obligations
- w. Non-competition covenants
- x. Dispute resolution
- y. Other (describe)

iii. Before the table, state the following:

THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AND OTHER AGREEMENTS. IT WILL HELP YOU FIND MORE DETAILED INFORMATION ABOUT YOUR OBLIGATIONS IN THESE AGREEMENTS AND IN OTHER ITEMS OF THIS OFFERING CIRCULAR.

Sample Answer 9

THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AND OTHER AGREEMENTS. IT WILL HELP YOU FIND MORE DETAILED INFORMATION ABOUT YOUR OBLIGATIONS IN THESE AGREEMENTS AND IN OTHER ITEMS OF THIS OFFERING CIRCULAR.

<u>Obligation</u>	<u>Section in Agreement</u>	<u>Item in Offering Circular</u>
a. Site selection and acquisition/lease	Section 2A of Franchise Agreement	Items 6 and 11
b. Pre-opening purchases/ leases	Section 3D of Franchise Agreement	Item 8
c. Site development and other pre-opening requirements	Sections 3A and 3B of Franchise Agreement	Items 6, 7 and 11
d. Initial and ongoing training	Section 5 of Franchise Agreement	Item 11
e. Opening	Section 4 of Franchise Agreement	Item 11
f. Fees	Section 6 of Franchise Agreement	Items 5 and 6
g. Compliance with standards and policies/	Section 8A of Franchise Agreement	Item 11

Operating
Manual

h. Trademarks and
proprietary
information

Sections 7
and 11
of Franchise
Agreement

Items 13 and 14

i. Restrictions
on products/
services
offered

Section 12
of Franchise
Agreement

Item 16

j. Warranty and
customer
service
requirements

Section 8B
of Franchise
Agreement

Item 11

k. Territorial
development
and sales
quotas

None

l. Ongoing product/service
purchases

Section 9
of Franchise
Agreement

Item 8

m. Maintenance,
appearance
and remodeling
requirements

Sections 8C
and 10
of Franchise
Agreement

Item 11

n. Insurance

Section 13A
of Franchise
Agreement

Items 6 and 8

o. Advertising

Section 15
of Franchise
Agreement

Items 6 and 11

p. Indemnification

Section 13B
of Franchise
Agreement

Item 6

q. Owner's
participation/
management/
staffing

Sections 4, 5
and 14
of Franchise
Agreement

Items 11 and 15

r. Records/
reports

Section 17A
of Franchise
Agreement

Item 6

s. Inspections/
audits

Section 17B
of Franchise
Agreement

Items 6 and 11

t. Transfer

Section 18
of Franchise
Agreement

Item 17

u. Renewal

Section 20
of Franchise
Agreement

Item 17

v. Post-termination
obligations

Section 22
of Franchise
Agreement

Item 17

w. Non-competition
covenants

Sections 11,
18 and 22C
of Franchise

Item 17

x. Dispute
resolution

Agreement
Section 24
of Franchise
Agreement

Item 17

Item 10

FINANCING

DISCLOSE THE TERMS AND CONDITIONS OF EACH FINANCING ARRANGEMENT THAT THE FRANCHISER, ITS AGENT OR AFFILIATES OFFERS DIRECTLY OR INDIRECTLY TO THE FRANCHISEE, INCLUDING:

Item 10 Instructions:

- i. "Financing" includes leases and installment contracts.
- ii. Payments due within 90 days on open account financing need not be disclosed under this Item.
- iii. A written arrangement between a franchiser or its affiliate and a lender for the lender to offer financing to the franchisee or an arrangement in which a franchiser or its affiliate receives a benefit from a lender for franchisee financing is an "indirect offer of financing" and must be disclosed under this Item. The franchiser's guarantee of a note, lease or obligation of the franchisee is an "indirect offer of financing" and must be disclosed under this Item.
- iv. If financing of the initial fee is disclosed in the Item 7 disclosure, a cross reference to Item 7 is sufficient if all the disclosure which Item 10 requires is provided in Item 7.
- v. If an affiliate offers financing, identify the affiliate and its relationship to the franchiser.
- vi. The franchiser may summarize the terms of each financing arrangement in tabular form, using footnotes to entries in the chart to provide additional information required by these instructions that does not fit in the chart.
- vii. If a financing arrangement is for the establishment of the franchised business, disclose what the financing covers, including:
 - a) Initial franchise fee;
 - b) Site acquisition;
 - c) Construction or remodeling;
 - d) Equipment or fixtures; and
 - e) Opening inventory or supplies.
- viii. If the franchiser generally offers financing for the operation of the franchised business, disclose what the financing arrangement covers, including:

- a) Inventory or supplies;
 - b) Replacement equipment or fixtures; and
 - c) Other continuing expenses.
- ix. Disclose the terms of each financing arrangement, including:
 - a) The identity of the lender(s) providing the financing and its relationship to the franchiser (for example, affiliate);
 - b) The amount of financing offered or, if the amount depends on an actual cost that may vary, the percentage of the cost that will be financed;
 - c) The annual percentage rate of interest ("APR") charged, computed as provided by Sections 106-107 of the Consumer Protection Credit Act, 15 U.S.C. §§ 106-107. If the APR may differ depending on when the financing is issued, disclose the APR on a specified recent date;
 - d) The number of payments or the period of repayment;
 - e) Nature of security interest required by the lender;
 - f) Whether a person other than the franchisee (for example spouse, shareholder of the franchisee) must personally guarantee the debt;
 - g) Whether the debt can be prepaid and the nature of any prepayment penalty;
 - h) The franchisee's potential liabilities upon default, including any accelerated obligation to pay the entire amount due, court costs and attorney's fees for collection, and termination of the franchise, or other cross default clauses whether directly, as a result of non-payment, or indirectly, as a result of loss of necessary facilities; and
 - i) Other material financing terms.
- x. Include specimen copies of the financing documents as an exhibit to Item 22. Cite the section and name of the document containing the financing terms. Put this information in parentheses at the end of the description of the term.
- xi. Use Sample Answer 10-1 if the franchiser does not offer financing.

A. A WAIVER OF DEFENSES OR SIMILAR PROVISIONS IN A DOCUMENT.

Item 10A Instructions:

- i. Disclose the terms of waivers of legal rights by the franchisee under the terms of the financing arrangement (for example confession of judgment).
- ii. Describe provisions of the loan agreement that bar the franchisee from asserting a defense against the lender, the lender's assignee or the franchiser.
- iii. If the loan agreement does not contain the provisions in (i) or (ii), disclose that fact.

- iv. Cite the section and name of the document containing these terms. Put this information in parentheses at the end of the description of the term.

B. THE FRANCHISER'S PRACTICE OR ITS INTENT TO SELL, ASSIGN, OR DISCOUNT
TO A THIRD PARTY ALL OR PART OF THE FINANCING ARRANGEMENT.

Item 10B Instructions:

- i. Practice includes past or present practice and future intent to sell or assign franchisee financing arrangements.
- ii. Disclose the assignment terms including whether the franchiser will remain primarily obligated to provide the financed goods or services.
- iii. If the franchiser may sell or assign its rights under the financing agreement, disclose that the franchisee may lose all its defenses against the lender as a result of the sale or assignment.
- iv. Cite the section and name of the document containing these terms. Put this information in parentheses at the end of the description of the term.
- v. If no disclosure is required by Instruction 10B, disclose that fact.

C. PAYMENTS TO THE FRANCHISER OR AN AFFILIATE(S) FOR THE PLACEMENT OF
FINANCING WITH THE LENDER.

Item 10C Instructions:

- i. Describe the payments.
- ii. If no disclosure is required by Instruction 10C(i) for a financing arrangement, disclose that fact.
- iii. Identify the source of the payment and the relationship of the source to the franchiser or its affiliates.
- iv. Disclose the amount or the method of determining the payment.
- v. Cite the section and name of the document containing these arrangements. Put this information in parentheses at the end of the description of the term.

Sample Answer 10-1

Belmont does not offer direct or indirect financing. Belmont does not guarantee your note, lease or obligation.

Sample Answer 10-2

SUMMARY OF FINANCING OFFERED

ITEM FINANCED (SOURCE)	AM OUN T FIN ANC ED	DO WN PA YM EN T	T E R M (Y E A R S)	A P R %	MO NT HL Y PA YM EN T	PREP AY PENA LTY	SECURITY REQUIRED	LIABIL ITY UPON DEFAU LT	LOSS OF LEGAL RIGHT ON DEFAULT
INITIAL FEE (NOTE 1) (BELMONT)	\$10,000		10	18	\$	NONE	PERSONAL GUARANTEE	LOSS OF FRANC HISE- UNPAI D LOAN	WAIVE NOTICE- CONFESS JUDGME NT
LAND/CON STRUCT	NON E								
LEASED SPACE (NOTE 2) (BELMONT)	\$2,000 (SEC UR. DEP.)	7-10	<u>N/A</u>	\$	NO NE	PERS ONAL GUA RANT EE	LOSS OF FRANCHISE- BACK RENT +BR>2 MOS. - FRANCHISE RIGHTS- ATTY'S FEES	NONE	
EQUIPMEN T LEASE (NOTE 3) (USA CREDIT CORP.)	\$5,000	NO NE	5	15	\$	NONE	EQUIPMENT- PERSONAL GUARANTEE	COST OF REMOV AL	LOSE ALL DEFENSE S
EQUIP PURCH (NOTE 4) (BELMONT)	\$3,750	\$1,250 (25 %)	2-7	15	\$	\$500	EQUIPMENT- PERSONAL GUARANTEE	LOSS OF FRANC HISE- GUARA NTEE	NONE
OPENING INVENT.	NON E								
OTHER FINANCIN G	NON E								

NOTE 1 - If you meet Belmont's credit standards, Belmont will finance the \$10,000 initial franchisee fee over a 10-year period at an APR of 18%, using the standard form note in Exhibit A. The only security Belmont requires is a personal guarantee of the note by you and your spouse or by all the shareholders of your corporation. (Loan Agreement Section ____). The note can be prepaid without penalty at any time during its 10-year term. (Loan Agreement Section ____). If you do not pay on time, Belmont can call the loan and demand immediate payment of the full outstanding balance and obtain court costs and attorney's fees if a collection action is necessary. (Loan Agreement Section ____). Belmont also has the right to terminate your franchise if you do not make your payments on time more than three times during the note term. (Loan Agreement Section ____). You waive your rights to notice

of a collection action and to assert any defenses to collection against Belmont. (Loan Agreement Section ____)
Belmont discounts these notes to a third party who may be immune under the law to any defenses to payment you may have against Belmont. (Loan Agreement Section ____)

NOTE 2 - In most cases Belmont will sublease the franchised premises to you but will guarantee your lease with a third party if you have acceptable credit and that is the only way to obtain an exceptional location. (Lease Section ____)
The precise terms of Belmont's standard lease in Exhibit B will vary depending on the size and location of the premises, but the chart reflects a typical range of payments for Belmont's standard 6-day franchise outlet, including payment of one month's rent as a security deposit. (Lease Section ____)
The only other security Belmont requires is a personal guarantee of the lease by you and your spouse or by all the shareholders of your corporation. (Lease Section ____)
The lease can be prepaid without penalty at any time during its term. (Lease Section ____)
If you do not make a rent payment on time, Belmont has the right to collect the unpaid rent plus an additional two months rent, as liquidated damages. (Lease Section ____)
Belmont can also obtain court costs and attorney's fees if a collection action is necessary. (Lease Section ____)
If you are late with your rent more than three times during the lease term, Belmont has the right to terminate the lease, take over the premises, and terminate your franchise. If Belmont guarantees your lease, Belmont will require you to sign the guarantee agreement in Exhibit F (Lease Section ____). This gives Belmont the same legal rights as the sublease but requires you to give Belmont the right to approve your lease and pay the rent for you if you fail to pay on time. (Lease Section ____)

NOTE 3 - If you want to lease the pipe bending machine and other equipment you need, Belmont has arranged an equipment lease (see Exhibit C) from USA Credit Corporation of Las Vegas, Nevada. If you choose this option, you will pay \$100 a month for 60 months (5 years) at an APR of 15% based on a cash price of \$5,000, with no money down. (Equipment Lease Section ____)
At the end of the lease term, you may purchase the equipment with a one-time payment of \$2,500. (Equipment Lease Section ____)
USA Credit requires a personal guarantee from you and your spouse or from all the shareholders of your corporation and retains a security interest in the equipment. (Equipment Lease Section ____)
The equipment lease can be prepaid at any time, but the interest you might otherwise save will be reduced by application of the Rule of 78's for computing finance charges. (Equipment Lease Section ____)
If you do not make a payment on time, USA Credit can demand payment of all past due payments, remove the equipment, and charge you \$1,000 as liquidated damages. (Equipment Lease Section ____)
USA Credit can also recover its costs of collection, including court costs and attorney's fees. (Equipment Lease Section ____)
While Belmont does not know USA Credit's policies, USA Credit may discount the lease to a third party who may be immune under the law to claims or defenses you may have against USA Credit, the equipment manufacturer or Belmont. Belmont receives a referral fee of \$500 from USA Credit for every franchisee who leases equipment from it.

NOTE 4 - If you prefer, Belmont will sell you the pipe bending machine and other necessary equipment on time (Equipment Purchase Agreement Section ____). Belmont requires a 25% down payment of \$1,250. (Equipment Purchase Agreement Section ____)
Belmont will finance the remainder over a 2-7 year period at your option at an APR of 15%. (Equipment Purchase Agreement Section ____)
Payments range from \$228.11 a month over 7 years to \$821.58 a month over 2 years. (Equipment Purchase Agreement Section ____)
Belmont's standard equipment financing note in Exhibit D must be personally guaranteed by you and your spouse or by all the shareholders of your corporation, and Belmont will retain a security interest in the equipment. (Equipment Purchase Agreement Section ____)
You may purchase the equipment at any time during the lease period by paying the remainder of the principal plus a \$500 prepayment penalty. (Equipment Purchase Agreement Section ____)
If you do not make a payment on time, Belmont can demand all overdue payments, repossess the equipment, and terminate your franchise. Belmont can also recover its costs of collection, including court costs and attorney's fees. (Equipment Purchase Agreement Section ____)

Except as disclosed in Note 1, Belmont does not offer financing that requires you to waive notice, confess judgment or waive a defense against Belmont or the lender, although you may lose your defenses against Belmont and others in a collection action on a note that is sold or discounted, as disclosed in Notes 2 and 3.

Except as disclosed in Note 3, Belmont does not arrange financing from other sources.

Except as disclosed in Notes 1 and 3, commercial paper from franchisees has not been and is not sold or assigned to anyone, and Belmont has no plans to do so.

Except as disclosed in Note 3, Belmont does not receive direct or indirect payments for placing financing.

Except as disclosed in Note 2, Belmont does not guarantee your obligations to third parties.

Item 11

FRANCHISER'S OBLIGATIONS

DISCLOSE THE FOLLOWING:

A. THE OBLIGATIONS THAT THE FRANCHISER WILL PERFORM BEFORE THE FRANCHISE BUSINESS OPENS. CITE BY SECTION THE PROVISIONS OF THE AGREEMENT REQUIRING PERFORMANCE.

Item 11A Instructions:

- i. Begin the disclosure by stating: "Except as listed below, (the franchiser) need not provide any assistance to you."
- ii. Pre-opening obligations include assistance to:
 - a) Locate a site for the franchised business and negotiate the purchase or lease of this site. State whether the franchiser generally owns the premises and leases it to the franchisee;
 - b) Conform the premises to local ordinances and building codes and obtain the required permits (i.e. health, sanitation, building, driveway, utility and sign permits);
 - c) Construct, remodel or decorate the premises for the franchised business;
 - d) Purchase or lease equipment, signs, fixtures, opening inventory and supplies. Disclose whether the franchiser provides these items directly or merely the names of approved suppliers. Disclose whether the franchiser provides written specifications for these items. Disclose whether the franchiser delivers or installs these items. {The franchiser may cross reference Item 8 for details); and
 - e) Hire and train employees.
- iv. After describing the obligation, cite the section number of the agreement imposing the obligation. Put the citation in parentheses. Use this format throughout this Item.

B. THE OBLIGATIONS TO BE MET BY THE FRANCHISER DURING THE OPERATION OF THE FRANCHISE BUSINESS.

Item 11B Instructions:

- i. Include assistance in:
 - a) Products or services to be offered by the franchisee to its customers;
 - b) Hiring and training of employees;
 - c) Improvements and developments in the franchised business;
 - d) Pricing;

- e) Administrative, bookkeeping, accounting and inventory control procedures; and
- f) Operating problems encountered by the franchisee.

ii. For the Franchiser's advertising program for the product or service offered by the franchisee:

- a) Disclose the media in which the advertising may be disseminated (for example, print, radio, or television).
- b) Disclose whether the coverage of the media is local, regional, or national in scope.
- c) Disclose the source of the advertising. (for example, in-house advertising department, a national or regional advertising agency).
- d) Disclose the conditions when the franchiser permits franchisees to use their own advertising material.
- e) If there is an advertising council composed of franchisees that advises the franchiser on advertising policies, disclose:
 - (1) How members of the council are selected.
 - (2) Whether the council serves in an advisory capacity only or has operational or decision-making power.
 - (3) Whether the franchiser has the power to form, change, or dissolve the advertising council.
- f) If the franchisee must participate in a local or regional advertising cooperative, disclose:
 - (1) How the area or membership of the cooperative is defined.
 - (2) How the franchisee's contribution to the cooperative is calculated (may reference Item 6).
 - (3) Who is responsible for administration of the cooperative (for example, franchiser, franchisees, advertising agency).
 - (4) Whether cooperatives must operate from written governing documents and whether the documents are available for review by the franchisee.
 - (5) Whether cooperatives must prepare annual or periodic financial statements and whether the statements are available for review by the franchisee.
 - (6) Whether the franchiser has the power to require cooperatives to be formed, changed, dissolved or merged.
- g) If applicable, for each advertising fund not described in above subpart (f), disclose:
 - (1) Who contributes to each fund (for example, franchisees, franchiser, franchiser-owned units, outside vendors or suppliers);
 - (2) Whether the franchiser-owned units must contribute to the fund and, if so, whether it is on the same basis as franchisees.

- (3) How much the franchisee must contribute to the advertising fund(s) (may reference Item 6) and whether other franchisees are required to contribute at a different rate (it is not necessary to disclose the specific rates).
 - (4) Who administers the fund(s). Whether the fund is audited and when, and whether financial statements of the fund are available for review by the franchisee.
 - (5) Use of the fund(s) in the most recently concluded fiscal year, the percentages spent on production, media placement, administrative expenses, and other (with a description of what constitutes "other"). Totals should equal 100%.
 - (6) Whether the franchiser or an affiliate receives payment for providing goods or services to an advertising fund.
 - h) State whether the franchiser must spend any amount on advertising in the area or territory where the franchisee is located.
 - i) If all advertising fees are not spent in the fiscal year in which they accrue, explain how the franchiser uses the remaining amounts. Indicate whether franchisees will receive a periodic accounting of how advertising fees are spent.
 - j) Disclose the percentage of advertising funds, if any, used for advertising that is principally a solicitation for the sale of franchises.
 - k) Cross reference Items 6, 8 and 9.
- iv. If the franchiser requires that franchisees buy or use electronic cash register or computer systems, provide a general description of the systems in non-technical language:
- (a) Identify each hardware component and software program by brand, type and principal functions.
 - 1) If the hardware component or software program is the proprietary property of the franchiser, an affiliate or a third party, state whether the franchiser, an affiliate or a third party has the contractual right or obligation to provide ongoing maintenance, repairs, upgrades or updates. Disclose the current annual cost of any optional or required maintenance and support contracts, upgrades and updates.
 - 2) If the hardware component or software program is the proprietary property of a third party, and no compatible equivalent component or program has been approved by the franchiser for use with the system to perform the same functions, identify the third party by name, business address and telephone number, and state the length of time the component or program has been in continuous use by the franchiser and its franchisees.
 - 3) If the hardware component or software program is not proprietary, identify compatible equivalent components or programs that perform the same functions and indicate whether they have been approved by the franchiser.
 - b) State whether the franchisee has any contractual obligation to upgrade or update any hardware component or software program during the term of the franchise, and if so, whether there are any contractual limitations on the frequency and cost of the obligation.]
 - c) For each electronic cash register system or software program, describe how it will be used in the franchisee's business, and the types of business information or data that will be collected and

generated. State whether the franchiser will have independent access to the information and data, and if so, whether there are any contractual limitations on the franchiser's right to access the information and data.

- v. After describing the obligation, cite the section number of the agreement imposing the obligation. Put the citation in parentheses.
- vi. Disclose if the franchiser is not obligated to provide or to assist the franchisee to obtain the above items or services.
- vii. Do not repeat, but do cross reference disclosure made in Item 6.
- viii. Disclose the table of contents of the operating manual(s) provided to the franchisee as of the franchiser's last fiscal year end or a more recent date. State the number of pages devoted to each subject and the total number of pages in the manual as of this date. Alternatively, this disclosure may be omitted if the prospective franchisee views the manual before purchase of the franchise.

C. THE METHODS USED BY THE FRANCHISER TO SELECT THE LOCATION OF THE FRANCHISEE'S BUSINESS.

Item 11C Instructions:

- i. Disclose whether the franchiser selects the site or approves an area within which the franchisee selects a site. Disclose how and whether the franchiser must approve a franchisee selected site.
- ii. Disclose the factors which the franchiser considers in selecting or approving sites (for example general location and neighborhood, traffic patterns, parking, size, physical characteristics of existing buildings and lease terms).
- iii. Disclose the time limit for the franchiser to locate or to approve or disapprove the site. Disclose the consequences if the franchiser and franchisee cannot agree on a site.
- iv. Disclosures made in response to Item 11A need not be repeated or cross-referenced in the response to Item 11C.

D. THE TYPICAL LENGTH OF TIME BETWEEN THE SIGNING OF THE FRANCHISE AGREEMENT OR THE FIRST PAYMENT OF CONSIDERATION FOR THE FRANCHISE AND THE OPENING OF THE FRANCHISEE'S BUSINESS.

Item 11 D Instructions:

- ii. Disclosure may be a range of times if the range is specific.
- iii. Describe the factors which may affect the time period such as ability to obtain a lease, financing or building permits, zoning and local ordinances, weather conditions, shortages, or delayed installation of equipment, fixtures and signs.

E. THE TRAINING PROGRAM OF THE FRANCHISER AS OF THE FRANCHISER'S LAST FISCAL YEAR END OR A MORE RECENT DATE INCLUDING:

- (1) THE LOCATION, DURATION AND GENERAL OUTLINE OF THE TRAINING PROGRAM;
- (2) HOW OFTEN THE TRAINING PROGRAM WILL BE CONDUCTED;
- (3) THE EXPERIENCE THAT THE INSTRUCTORS HAVE WITH THE FRANCHISER;
- (4) CHARGES TO BE MADE TO THE FRANCHISEE AND WHO MUST PAY TRAVEL AND LIVING EXPENSES OF THE ENROLLEES IN THE TRAINING PROGRAM;
- (5) IF THE TRAINING PROGRAM IS NOT MANDATORY, THE PERCENTAGE OF NEW FRANCHISEES THAT ENROLLED IN THE TRAINING PROGRAM DURING THE PRECEDING 12 MONTHS; AND
- (6) WHETHER ANY ADDITIONAL TRAINING PROGRAMS AND/OR REFRESHER COURSES ARE REQUIRED.

Item 11 F Instructions:

- i. Use a table to state the subjects taught and the number of hours of classroom and "on the job training" devoted to each subject in the franchiser's training program. Use footnotes to explain.
- ii. For each subject disclose the training location and how often training classes are held.
- iii. Describe the location or facility where the training is held (for example, company, home, office, company owned store.)
- iv. State how long after the signing of the agreement or before the opening date of the business the franchisee must complete the required training.
- v. Describe the nature of instructional material. Disclose the minimum experience of the instructors. Disclose only experience that is relevant to the subject taught and the franchiser's operations.
- vi. State who may and who is required to attend the training. State whether the franchisee or other persons must complete the program to the franchiser's satisfaction.
- vii. Charges for training or training materials should be disclosed in Item 5 if the obligation to pay arises before the franchise location opens.
- viii. Disclose who pays the travel and living expenses of the persons receiving the training.

Sample Answer 11

Except as disclosed below, Belmont need not provide any assistance to you.

Before you open your business, Belmont will:

- 1) Designate your exclusive territory (Franchise Agreement - paragraph 2).
- 2) Assist you in selecting a business site. Your site must be at least square feet in area, have parking spaces, and an average of cars per hour driving by. We must approve or disapprove your site within 20 days after we receive notice of the location.
- 3) Within 30 days of your signing the Franchise Agreement, assist you to find and negotiate the lease or purchase of a location for your muffler shop (Franchise Agreement - paragraph_____). Your store location will be purchased or leased by you from independent third parties.
- 4) Within 60 days of your signing the Franchise Agreement, provide written specifications for store construction or remodeling and for all required and replacement equipment, inventory and supplies (Franchise Agreement - paragraph). See Item 8 of this offering circular.
- 5) Within 60 days of your signing the Franchise Agreement, provide blueprints for your store construction or remodeling and obtain health, sanitation, building, utility and sign permits for your premises. Yo u pay for the construction or remodeling. (Franchise Agreement - paragraph).
- 6) Within 60 days of your signing the Franchise Agreement, train you and one other person as follows:

SUBJECT | TIME BEGUN | INSTRUCTIONAL | HOURS OF | HOURS OF | INSTRUCTOR

|| MATERIAL | CLASSROOM |ON THE JOB|

|| | TRAINING | TRAINING |

Belmont does not charge for this training or service, but you must pay the travel and living expenses for you and your employees. All training occurs at Belmont's Jackson, Minnesota headquarters.

During the operation of the franchised business, Belmont will:

- 1) Develop new products and methods and provide you with information about developments. (Franchise Agreement - paragraph .)
- 2) 2) Loan you a copy of our operations manual which contains mandatory and suggested specifications, standards and procedures. This manual is confidential and remains our property. Belmont will modify this manual, but the modification will not alter your status and rights under the Franchise Agreement. (Franchise Agreement - paragraph .) The table of contents is as follows:

Each week for the first 90 days after you open your shop, Belmont will telephone to discuss your operational problems.

Belmont will hold annual conferences to discuss sales techniques, personnel training, bookkeeping, accounting, inventory control, performance standards, advertising programs and merchandising procedures. There is no conference fee, but you must pay all your travel and living expenses. These elective conferences are held at our Jackson, Minnesota headquarters or at a location chosen by a majority vote of all franchisees.

Belmont provides advertising materials and services to you through a national advertising fund (the "National Fund"). Materials provided by the National Fund to all franchisees include video and audio tapes, mats, posters, banners and miscellaneous point-of-sale items. You will receive one sample of each at no charge. If you want additional copies you must pay duplication costs.

You may develop advertising materials for your own use, at your own cost. Belmont must approve the advertising materials in advance and in writing.

Belmont occasionally provides for placement of advertising on behalf of the entire Belmont system, including franchisees. However, most placement is done on a local basis, typically by local advertising agencies hired by individual franchisees or advertising cooperatives. Belmont reserves the right to use advertising fees from the Belmont system to place advertising in national media (including broadcast, print or other media) in the future. In the past Belmont has used an outside advertising agency to create and place advertising. Neither Belmont nor its affiliate receives payment from the National Fund. Advertising funds are used to promote the product sold by the franchisee and are not used to sell additional franchises.

The National Fund is a nonprofit corporation which collects advertising fees from all franchisees. Each franchiser owned store of Belmont contributes to the National Fund on the same basis as franchisees. All payments to the National Fund must be spent on advertising, promotion and marketing of goods and services provided by Belmont Muffler Shops. You must contribute the amounts described in Item 6, under the heading "Advertising Fees and Expenses."

The National Fund is administered by Belmont's accounting and marketing personnel under the direction of the Advertising Council. An annual audited financial statement of the National Fund is available to any franchisee upon request. During the last fiscal year of the National Fund (ending on December 31, 1990), the National Fund spent 39% of its income on the production of advertisements and other promotional materials, 36% for media placement, 18% for general and administrative expenses, and 7% for other expenses (the purchase of glassware given to customers of Belmont shops as part of a promotional campaign).

The Advertising Council acts as the board of directors of the National Fund. The Advertising Council has 8 members: the President, Treasurer, Vice President-Marketing, and Vice President-Operations of Belmont; and 4 franchisee representatives who are elected by the governing board of the Belmont Franchisee Association. Once your shop opens, you must participate in the local advertising cooperative established in the Area of Dominant Influence (ADI) where your store is located. The amount of your contribution to the local advertising cooperative is described in Item 6 under the heading "Advertising Fees and Expenses."

Each local advertising cooperative must adopt written governing documents. A copy of the governing documents of the cooperative (if one has been established) for your ADI is available upon request. Each cooperative may determine its own voting procedures; however, each company-owned Belmont Shop will be entitled to one vote in any local advertising cooperative. The members and their elected officers are responsible for administration of the cooperative. Advertising cooperatives must prepare quarterly and annual financial statements. The annual financial statement must be prepared by an independent CPA and be made available to all franchisees in that advertising cooperative.

You select your business site within your exclusive area subject to our approval. Belmont assists in site selection by telling you the number of new car registrations, population density, traffic patterns and proximity of the proposed site to other Belmont Muffler Shops.

Franchisees typically open their shops 4 to 7 months after they sign a franchise agreement. The factors that affect this time are the ability to obtain a lease, financing or building permits, zoning and local ordinances, weather conditions, shortages, and delayed installation of equipment fixtures and signs.

Item 12

TERRITORY

DESCRIBE ANY EXCLUSIVE TERRITORY GRANTED THE FRANCHISEE. CONCERNING THE FRANCHISEE'S LOCATION (WITH OR WITHOUT EXCLUSIVE TERRITORY), DISCLOSE WHETHER:

- A. THE FRANCHISOR HAS ESTABLISHED OR MAY ESTABLISH ANOTHER FRANCHISEE WHO MAY ALSO USE THE FRANCHISOR'S TRADEMARK.
- B. THE FRANCHISOR HAS ESTABLISHED OR MAY ESTABLISH A COMPANY-OWNED OUTLET OR OTHER CHANNELS OF DISTRIBUTION USING THE FRANCHISOR'S TRADEMARK.

Item 12 Instructions:

- i. As used in Item 12, trademark includes names, trademarks, logos and other commercial symbols.
- ii. If appropriate, describe the minimum area granted to the franchisee. The franchisor may use an area encompassed within a specific radius, a distance sufficient to encompass a specified population or another specific designation.
- iii. State whether the franchise is granted for a specific location or a location to be approved by the franchisor.
- iv. If appropriate, state the conditions under which the franchisor will approve the relocation of the franchised business or the establishment of additional franchised outlets.
- v. Describe restrictions on the franchisor regarding operating company owned stores or on granting franchised outlets for a similar or competitive business within the defined area.
- vi. Describe restrictions on franchisees from soliciting or accepting orders outside of their defined territories.
- vii. Describe restrictions on the franchisor from soliciting or accepting orders inside the franchisee's defined territory. State compensation that the franchisor must pay for soliciting or accepting orders inside the franchisee's defined territories.
- viii. Describe franchisee options, rights of first refusal or similar rights to acquire additional franchises within the territory or contiguous territories.
- ix. If the franchisor does not grant territorial rights, use

Sample Answer 12-1.

- C. THE FRANCHISOR OR ITS AFFILIATE HAS ESTABLISHED OR MAY ESTABLISH OTHER FRANCHISES OR COMPANY-OWNED OUTLETS OR ANOTHER CHANNEL OF DISTRIBUTION SELLING OR LEASING SIMILAR PRODUCTS OR SERVICES UNDER A DIFFERENT TRADEMARK.

Item 12C Instructions

- i. "Similar products and services" includes competing, interchangeable or substitute products but not products or services which are not part of the same product or service market.
 - ii. If the franchisor or an affiliate operates, franchises or has present plans to operate or franchise a business under a different trademark and that business sells goods or services similar to those to be offered by the franchisee, describe:
 - a) The similar goods and services;
 - b) The trade names and trademarks;
 - c) Whether outlets will be franchisor owned or operated;
 - d) Whether the franchisor or its franchisees who use the different trademark will solicit or accept orders within the franchisee's territory;
 - e) A timetable for the plan;
 - f) How the franchisor will resolve conflicts between the franchisor and the franchisees and between the franchisees of each system regarding territory, customers or franchisor support; and
 - g) If appropriate, disclose the principal business address of the franchisor's similar operating business. If it is the same as the franchisor's principal business address disclosed in Item 1, disclose whether the franchisor maintains (or plans to maintain) physically separate offices and training facilities for the similar competing business.
- D. CONTINUATION OF THE FRANCHISEE'S TERRITORIAL EXCLUSIVITY DEPENDS ON ACHIEVEMENT OF A CERTAIN SALES VOLUME, MARKET PENETRATION OR OTHER CONTINGENCY AND UNDER WHAT CIRCUMSTANCES THE FRANCHISEE'S TERRITORY MAY BE ALTERED.

Item 12D Instructions:

- i. Disclose conditions for the franchisee's keeping its territorial rights (for example, sales quotas or the opening of additional business outlets). Specify the quotas or conditions and the franchisor's rights if the franchisee fails to meet the requirements.
- ii. Disclose other circumstances that permit the franchisor to modify the franchisee's territorial rights (for example, a population increase in the territory giving the franchisor the right to grant an additional franchise within the area.) Disclose the effect on the franchisee's rights.

Sample Answer 12-1

You will not receive an exclusive territory. Belmont may establish other franchised or company owned outlets that may compete with your location.

Sample Answer 12-2

You will receive an exclusive territory with a minimum population of 50,000 people. You will operate from one location and must receive Belmont's permission before relocating. Belmont will not operate stores or grant franchises for a similar or competitive business within your area. Except when advertising cooperatively with appropriate franchisees, neither Belmont nor you can advertise or solicit orders within another franchisee's territory. You and Belmont can accept orders from outside your territory without special payment.

You do not receive the right to acquire additional franchises within your area.

There is no minimum sales quota. You maintain rights to your area even though the population increases.

Item 13

TRADEMARKS

DISCLOSE THE PRINCIPAL TRADEMARKS TO BE LICENSED TO THE FRANCHISEE INCLUDING:

Item 13 Instructions:

- i. As used in Item 13, "Principal trademarks" means the primary trademarks, service marks, names, logos and symbols to be used by the franchisee to identify the franchised business. It does not include every trademark owned by the franchisor.
 - ii. The franchisor may limit Item 13 disclosure to information that is relevant to the state where the franchised business will be located. The franchisor may include all states to eliminate the need for multiple disclosure in Item 13 but must amend its offering circular to reflect any material change in the list.
- A. WHETHER THE PRINCIPAL TRADEMARKS ARE REGISTERED WITH THE UNITED STATES PATENT AND TRADEMARK OFFICE. FOR EACH REGISTRATION STATE THE REGISTRATION DATE AND NUMBER AND WHETHER THE REGISTRATION IS ON THE PRINCIPAL OR SUPPLEMENTAL REGISTER.

Item 13A Instructions:

- i. Identify each principal trademark which the franchisee may use. The franchisor may reproduce these trademarks in this Item.

- ii. State the date and identification number of each trademark registration or registration application listed. State whether the franchisor has filed all required affidavits. State whether any registration has been renewed.
- iii. State whether the principal trademarks are registered on the principal or supplemental register of the U.S. Patent and Trademark Office, and if not, whether an "intent to use" application or an application based on actual use has been filed with the U.S. Patent and Trademark Office. If the principal trademark to be used by the franchisee is not registered on the Principal Register of the U.S. Patent and Trademark Office, state:

By not having a Principal Register federal registration for (name or description of symbol), (Name of Franchisor) does not have certain presumptive legal rights granted by a registration.

B. DISCLOSE CURRENTLY EFFECTIVE MATERIAL DETERMINATIONS OF THE PATENT AND TRADEMARK OFFICE, TRADEMARK TRIAL AND APPEAL BOARD, THE TRADEMARK ADMINISTRATOR OF THIS STATE OR ANY COURT; PENDING INFRINGEMENT, OPPOSITION OR CANCELLATION; AND PENDING MATERIAL LITIGATION INVOLVING THE PRINCIPAL TRADEMARKS.

Item 13B Instructions:

- i. Litigation or an action is material if it could significantly affect the ownership or use of a trademark listed under Item 13. Describe how the determination affects the ownership, use or licensing. Describe any decided infringement, cancellation or opposition proceedings. Include infringement, opposition or cancellation proceedings in which the franchisor unsuccessfully sought to prevent registration of a trademark in order to protect a trademark licensed by the franchisor.
- ii. For pending material federal or state litigation regarding the franchisor's use or ownership rights in a trademark disclose:
 - a) The forum and case number;
 - b) The nature of claims made opposing the franchisor's use or by the franchisor opposing another person's use; and
 - c) Any effective court or administrative agency ruling concerning the matter.
- iii. Do not repeat disclosure made in response to Item 13A.
- iv. The franchisor need not disclose historical challenges to registrations of trademarks listed in Item 13 that were resolved in the franchisor's favor.

- v. The franchisor may include an attorney's opinion relative to the merits of litigation or of an action if the attorney issuing the opinion consents to its use. The text of the disclosure may include a summary of the opinion if the full opinion is attached and the attorney issuing the opinion consents to the use of the summary.

C. DISCLOSE AGREEMENTS CURRENTLY IN EFFECT WHICH SIGNIFICANTLY LIMIT THE RIGHTS OF THE FRANCHISOR TO USE OR LICENSE THE USE OF TRADEMARKS LISTED IN ITEM 13 IN A MANNER MATERIAL TO THE FRANCHISE.

Item 13C Instructions:

For each agreement disclose:

- i. The manner and extent of the limitation or grant;
- ii. The agreement's duration;
- iii. The parties to the agreement;
- iv. The circumstances under which the agreement may be cancelled or modified; and
- v. All other material terms.

D. WHETHER THE FRANCHISOR MUST PROTECT THE FRANCHISEE'S RIGHT TO USE THE PRINCIPAL TRADEMARKS LISTED IN ITEM 13, AND MUST PROTECT THE FRANCHISEE AGAINST CLAIMS OF INFRINGEMENT OR UNFAIR COMPETITION ARISING OUT OF THE FRANCHISEE'S USE OF THEM.

Item 13D Instructions:

- i. Disclose the franchisee's obligation to notify the franchisor of the use of or claims of rights to a trademark identical to or confusingly similar to a trademark licensed to the franchisee.
- ii. State whether the franchise agreement requires the franchisor to take affirmative action when notified of these uses or claims. Identify who has the right to control administrative proceedings or litigation.
- iii. State whether the franchise agreement requires the franchisor to participate in the franchisee's defense and/or indemnify the franchisee for expenses or damages if the franchisee is a party to an administrative or judicial proceeding involving a trademark licensed by the franchisor to the franchisee, or if the proceeding is resolved unfavorably to the franchisee.

- iv. Disclose the franchisee's rights under the franchise if the franchisor requires the franchisee to modify or discontinue the use of a trademark as a result of a proceeding or settlement.
- E. WHETHER THE FRANCHISOR ACTUALLY KNOWS OF EITHER SUPERIOR PRIOR RIGHTS OR INFRINGING USES THAT COULD MATERIALLY AFFECT THE FRANCHISEE'S USE OF THE PRINCIPAL TRADEMARKS IN THIS STATE OR THE STATE IN WHICH THE FRANCHISED BUSINESS IS TO BE LOCATED.

Item 13E Instructions:

For each use of a principal trademark that the franchisor believes constitutes an infringement that could materially affect the franchisee's use of a trademark, state:

- i. The location(s) where the infringement is occurring;
- ii. To the extent known, the length of time of the infringement; and
- iii. Action taken by the franchisor.
- iv.

If the franchisor knows of a use of a trademark by another in a geographic area relevant to the franchisee which is or is likely to be based on a claim of superior prior rights to the franchisor's, state the nature of the use by the other person and the place or area where it is occurring.

Sample Answer 13

Belmont grants you the right to operate a shop under the name Belmont Muffler Shop. You may also use our other current or future trademarks to operate your shop. By trademark Belmont means trade names, trademarks, service marks and logos used to identify your shop. Belmont registered the below trademark on the United State Patent and Trademark Office principal register:

You must follow our rules when you use these marks. You can not use a name or mark as part of a corporate name or with modifying words, designs or symbols except for those which Belmont licenses to you. You may not use Belmont's registered name in connection with the sale of an unauthorized product or service or in a manner not authorized in writing by Belmont.

On June 4, 1973, the United States Patent and Trademark Office rejected Belmont's application to register the mark "Super Mufflers" because the mark was found to be confusingly similar to a registered mark. Belmont's inability to register this mark on a federal level permits others to establish rights to use the mark. This use will not be in areas where our franchisees are operating, or advertising under the mark, or in the natural zone of expansion for Belmont's shops. In addition, these users must act in good faith and without actual knowledge of Belmont's prior use of the mark. However, if others establish rights to use Belmont's mark, Belmont may not be able to expand into these areas using the mark.

No agreements limit Belmont's right to use or license the use of Belmont's trademarks.

You must notify Belmont immediately when you learn about an infringement of or challenge to your use of our trademark. Belmont will take the action we think appropriate. While Belmont is not required to defend you against a claim against your use of our trademark, Belmont will reimburse you for your liability and reasonable costs in connection with defending Belmont's trademark. To receive reimbursement you must have notified Belmont immediately when you learned about the infringement or challenge.

You must modify or discontinue the use of a trademark if Belmont modifies or discontinues it. If this happens, Belmont will reimburse you for your tangible costs of compliance (for example, changing signs). You must not directly or indirectly contest our right to our trademarks, trade secrets or business techniques that are part of our business.

Belmont does not know of any infringing uses that could materially affect your use of Belmont's trademark.

or

John E. Jones, 4231 Main Street, Reno, Nevada is currently doing business as Belmont Muffler Shoppe at 4231 Main Street, Reno, Nevada. We believe that this is an infringing use of our federally registered trademark "Belmont Muffler Shop," and we have filed an action to enjoin Mr. Jones and to recover damages. If the court holds that Mr. Jones' use is not infringing, Belmont may not be able to use Belmont's trademark in Mr. Jones' immediate area. (Belmont Muffler Shop v. Belmont Muffler Shoppe-cite)

Item 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

IF THE FRANCHISOR OWNS RIGHTS IN PATENTS OR COPYRIGHTS THAT ARE MATERIAL TO THE FRANCHISE, DESCRIBE THESE PATENTS AND COPYRIGHTS AND THEIR RELATIONSHIP TO THE FRANCHISE. INCLUDE THEIR DURATION AND WHETHER THE FRANCHISOR CAN AND INTENDS TO RENEW THE COPYRIGHTS. TO THE EXTENT RELEVANT, DISCLOSE THE INFORMATION REQUIRED BY ITEM 13 CONCERNING THESE PATENTS AND COPYRIGHTS. IF THE FRANCHISOR CLAIMS PROPRIETARY RIGHTS IN CONFIDENTIAL INFORMATION OR TRADE SECRETS, DISCLOSE THEIR GENERAL SUBJECT MATTER AND THE TERMS AND CONDITIONS FOR USE BY THE FRANCHISEE.

Item 14 Instructions:

- i. State the patent number, issue date and title for each patent. State the serial number, filing date and title of each patent application. Describe the type of patent or patent application (for example mechanical, process, or design). State the registration number and date of each copyright.
- ii. Describe the relationship of the patent, patent application or copyright to the franchised business.
- iii. Describe any current determination of the Patent and Trademark Office, Copyright Office (Library of Congress) or court regarding the patent or copyright. Include the forum, case number and effect on the franchised business.
- iv. State the forum, case number, claims asserted, issues involved and effective determinations for any proceedings pending in the Patent and Trademark Office or the Court of Appeals for the Federal Circuit.

- v. If counsel consents, the franchisor may include a counsel's opinion or a summary of the opinion about patent or copyright issues discussed in this Item.
- vi. If an agreement limits the use of the patent, patent application or copyright, state the parties to and duration of the agreement, the extent to which the franchisee may be affected by the agreement, and other material terms of the agreement.
- vii. Disclose the franchisor's obligation to protect the patent, patent application or copyright. State:
 - a) Whether franchisee must notify the franchisor of claims or infringements or if the action is discretionary.
 - b) Whether the franchisor must take affirmative action when notified of infringement or if the action is discretionary.
 - c) Who has the right to control litigation.
 - d) Whether the franchisor must participate in the defense of a franchisee or indemnify the franchisee for expenses or damages in a proceeding involving a patent, patent application or copyright licensed to the franchisee.
 - e) Requirements that the franchisee modify or discontinue use of the subject matter covered by the patent or copyright.
 - f) Franchisee's rights if the franchisor requires the franchisee to modify or discontinue the use of the subject_matter covered by the patent or copyright.
- viii. If the franchisor actually knows of an infringement that could materially affect the franchisee, state:
 - a) The nature of the infringement.
 - b) The location(s) where the infringement is occurring.
 - c) The length of time of the infringement.
 - d) Action taken or anticipated by the franchisor.
- ix. State whether the franchisor intends to renew the copyright when the registration expires.
- x. Discuss in general terms other proprietary information communicated to the franchisee (for example, whether there is a formula or recipe considered to be a trade secret.)
- xi. Use Sample Answer 14-1 if no patents or copyrights are material to the franchise.

Sample Answer 14-1

No patents or copyrights are material to the franchise.

Sample Answer 14-2

You do not receive the right to use an item covered by a patent or copyright, but you can use the proprietary information in Belmont's Operations Manual. The Operations Manual is described in Item 11. Although Belmont

has not filed an application for a copyright registration for the Operations Manual, it claims a copyright and the information is proprietary. Item 11 describes limitations on the use of this manual by you and your employees. You must also promptly tell us when you learn about unauthorized use of this proprietary information. Belmont is not obligated to take any action but will respond to this information as we think appropriate. Belmont will indemnify you for losses brought by a third party concerning your use of this information.

Sample Answer 14-3

U.S. Patent 3999442 was issued on December 14, 1980. It describes a process for exhaust system installation. The process describes the steps in making a straight length of exhaust pipe, bending this pipe, coating the inside and outside of this pipe with our Pipe Protector and installing the exhaust pipe on a motor vehicle. You will use equipment utilizing this process.

On December 15, 1970, Belmont obtained a copyright registration for its Operations Manual under Registration A41139. Amendments to the manual were registered on January 7, 1983 (Reg. A521,371) and June 6, 1974 (Reg. A 541,333). Belmont intends to renew these copyrights. Item 11 of this Offering Circular describes the Operations Manual and the manner in which you are permitted to use it.

Belmont's right to use or license these patents and copyrighted items is not materially limited by any agreement or known infringing use.

You must tell us immediately if you learn about an infringement or challenge to our use of these patents or copyrights. Belmont will take the action that Belmont thinks appropriate. You must also agree not to contest Belmont's interest in these or our other trade secrets.

If Belmont decides to add, modify or discontinue the use of an item or process covered by a patent or copyright, you must also do so. Belmont's sole obligation is to reimburse you for the tangible cost of complying with this obligation.

Although Belmont is not obligated to defend your use of these items or processes, Belmont will reimburse you for damages and reasonable costs incurred in litigation about them.

Item 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

DISCLOSE THE FRANCHISEE'S OBLIGATION TO PARTICIPATE PERSONALLY IN THE DIRECT OPERATION OF THE FRANCHISE BUSINESS AND WHETHER THE FRANCHISOR RECOMMENDS PARTICIPATION.

Item 15 Instructions:

- i. Include obligations arising from written agreement (including personal guaranty, confidentiality agreement or noncompetition agreement) or from the franchisor's practice.
- ii. If personal "on premises" supervision is not required:
 - a) If the franchisee is an individual, state whether the franchisor recommends "on-premises" supervision by the franchisee;
 - b) State limitations on whom the franchisee can hire as an on-premises supervisor;

- c) Whether this "on-premises" supervisor must successfully complete the franchisor's training program; and
 - d) If the franchisee is a business entity, state the amount of equity interest that the "on premises" supervisor must have in the franchise.
- iii. Disclose the restrictions which the franchisee must place on its manager (for example, maintain trade secrets, non-competition).
 - iv. The franchisor may reference Items 14 and 17 in its answer.

Sample Answer 15-1

If you are an individual, you must directly supervise the franchised business on its premises. If you are a corporation the direct, on-site supervision must be done by a person who owns at least 1/3 of the corporate equity.

Sample Answer 15-2

Belmont does not require that you personally supervise the franchised business. The business must be directly supervised "on-premises" by a manager who has successfully completed Belmont's training program. The on-premises manager can not have an interest or business relationship with any of Belmont's business competitors. The manager need not have an ownership interest in a corporate or partnership franchisee. The manager must sign a written agreement to maintain confidentiality of the trade secrets described in Item 14 and to conform with the covenants not to compete described in Item 17.

Each individual who owns a 5% or greater interest in the franchisee entity must sign an agreement (Exhibit ____) assuming and agreeing to discharge all obligations of the "Franchisee" under the Franchise Agreement.

Item 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

DISCLOSE RESTRICTIONS OR CONDITIONS IMPOSED BY THE FRANCHISOR ON THE GOODS OR SERVICES THAT THE FRANCHISEE MAY SELL OR THAT LIMIT THE CUSTOMERS TO WHOM THE FRANCHISEE MAY SELL GOODS OR SERVICES.

Item 16 Instructions:

- i. Describe the franchisee's obligation to sell only goods and services approved by the franchisor.
- ii. Disclose any franchisee obligation to sell all goods and services authorized by the franchisor. Disclose whether the franchisor has the right to change the types of authorized goods and services and whether there are limits on the franchisor's right to make changes.
- iii. If the franchisee is restricted regarding customers, disclose the restrictions.
- iv. The applicant may cross reference disclosures made in Items 8, 9, and 12.
- v. Use Sample Answer 16-1 for a negative response.

Sample Answer 16-1

Belmont does not restrict the type of goods or services that you may offer.

Sample Answer 16-2

Belmont requires you to offer and sell only those goods and services that Belmont has approved (see Item 9). You must offer all goods and services that Belmont designates as required for all franchisees. These required services are muffler inspection, repair and replacement. Parts, supplies, and equipment used in your Belmont Muffler business must be approved by Belmont (see Item 8).

Belmont has the right to add additional authorized services that the franchisee is required to offer. There are no limits on Belmont's right to do so except that the investment required of a franchisee (for equipment, supplies and initial inventory) will not exceed \$5,000 per year.

Belmont also designates some services as optional for qualified franchisees. Current optional services are brake inspection, repair and replacement, tire rotation, wheel balancing, and alignment and rust-proofing. To offer optional goods or services, you must be in substantial compliance with all material obligations under your Franchise Agreement. In addition, Belmont may require you to comply with other requirements (such as training, marketing, insurance) before Belmont will allow you to offer certain optional services.

As long as you meet your annual agreed sales quotas (see Item 12), Belmont will not restrict you from soliciting any customers, no matter who they are or where they are located. If you do not meet your annual sales quota, Belmont may deny you the right to receive any further fleet business referrals from Belmont and may either keep the fleet business referrals for itself or give them to another franchisee. Failure to meet your annual sales quota is a default under your Franchise Agreement and grounds for termination of your franchise (see Item 17).

Item 17

RENEWAL, TERMINATION, TRANSFER
AND DISPUTE RESOLUTION

SUMMARIZE THE PROVISIONS OF THE FRANCHISE AND OTHER AGREEMENTS DEALING WITH
TERMINATION, RENEWAL, TRANSFER, DISPUTE RESOLUTION AND OTHER IMPORTANT ASPECTS
OF THE FRANCHISE RELATIONSHIP.

Item 17 Instructions:

- i. Begin Item 17 disclosure with the following statement:

This table lists certain important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this offering circular.

- ii. Respond in tabular form. Refer to the section of the agreement which covers each subject.
- iii. Use a separate table for any other significant franchise-related agreements. If a provision in any other agreement affects the provisions of the franchise or franchise-related agreements disclosed in this Item (for example, the term of the franchise will be equal to the term of the lease), disclose that provision in the applicable category in the table.

- iv. The table should contain a "summary" column to summarize briefly the disclosed provision. The summary is intended to provide a concise overview of the provision in no more than a few words or a sentence. Do not specify in detail all matters covered by a provision.
- v. The table should respond to each category listed below. Do not change the names of the categories. List all contractual provisions relevant to each category in the table. If the response to any category is that the agreement does not contain the relevant provision, the table should so state. If the agreement is silent concerning a category but the franchisor unilaterally offers to provide certain benefits or protections to franchisees as a matter of policy, a footnote should describe this policy and state whether the policy is subject to change. The categories are:
 - a. Length of the term of the franchise
 - b. Renewal or extension of the term
 - c. Requirements for franchisee to renew or extend
 - d. Termination by franchisee
 - e. Termination by franchisor without cause
 - f. Termination by franchisor with "cause"
 - g. "Cause" defined - curable defaults
 - h. "Cause" defined - defaults which cannot be cured
 - i. Franchisee's obligations on termination/non-renewal
 - j. Assignment of contract by franchisor
 - k. "Transfer" by franchisee – defined
 - l. Franchisor approval of transfer by franchisee
 - m. Conditions for franchisor approval of transfer
 - n. Franchisor's right of first refusal to acquire franchisee's business
 - o. Franchisor's option to purchase franchisee's business
 - p. Death or disability of franchisee
 - q. Non-competition covenants during the term of the franchise
 - r. Non-competition covenants after the franchise is terminated or expires
 - s. Modification of the agreement
 - t. Integration/merger clause
 - u. Dispute resolution by arbitration or mediation
 - v. Choice of forum
 - w. Choice of law

Sample Answer 17

This table lists important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this offering circular.

Provision	Section in Franchise Agreement	Summary
a. Term of the franchise	Section 1, (also Section 1 of Lease, Exhibit F)	Term is equal to lease term - 10 years
b. Renewal or extension of the term	Section 20	If you are in good standing you can add additional term equal to renewal term of lease (10 years max.)
c. Requirements for you to renew or extend	Section 20	Sign new agreement, pay fee, remodel and sign release
d. Termination by you	None	
e. Termination by Belmont without cause	None	
f. Termination by Belmont with cause	Section 21	Belmont can terminate only if franchisee defaults You have 30 days to cure: non-payment of fees, sanitation problems, non-submission of reports and any other default not listed in Sec. 21A
g. "Cause" defined - defaults which can be cured	Section 21B	Non-curable defaults: conviction of felony, repeated defaults even if cured, abandonment, trademark misuse and unapproved transfers
h. "Cause" defined - defaults which cannot be cured	Section 22	Obligations include complete deidentification and payment of amounts due (also see r, below)
i. Your obligations on termination/nonrenewal	Section 22	
j. Assignment of contract by Belmont	Section 18	No restriction on Belmont's right to assign

k. "Transfer" by you - definition	Section 19A	Includes transfer of contract or assets or ownership change
l. Belmont's approval of transfer by franchisee	Section 19B	Belmont has the right to approve all transfers but will not unreasonably withhold approval
m. Conditions for Belmont approval of transfer	Section 19C	New franchisee qualifies, transfer fee paid, purchase agreement approved, training arranged, release signed by you and current agreement signed by new franchisee (also see r, below)
n. Belmont's right to first refusal to acquire your business	Section 19F	Belmont can match any offer for the franchisee's business
o. Belmont's option to purchase your business	None, but see policy described in Note 1	
p. Your death or disability	Section 19D	Franchise must be assigned by estate to approved buyer in 6 months
q. Non-competition covenants during the term of the franchise	Section 11	No involvement in competing business anywhere in U.S.
r. Non-competition covenants after the franchise is terminated or expires	Sections 19C and 22C	No competing business for 2 years within 20 miles of another Belmont franchise (including after assignment)
s. Modification of the agreement	Section 8A	No modifications generally but Operating Manual subject to change
t. Integration/ merger clause	Section 29	Only the terms of the franchise agreement are binding (subject to state law). Any other promises may not be enforceable
u. Dispute resolution by arbitration or mediation	Section 24 Except for certain claims, all disputes must be arbitrated in _____, _____	

Litigation must be in

Section 28

These states have statutes which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise: ARKANSAS [Stat. Section 70-807], CALIFORNIA [Bus. & Prof. Code Sections 20000-20043], CONNECTICUT [Gen. Stat. Section 42-133e et seq.], DELAWARE [Code, tit.], HAWAII [Rev. Stat. Section 482E-1], ILLINOIS [Rev. Stat. Chapter 121 1/2 par 1719-1720], INDIANA [Stat. Section 23-2-2.7], IOWA [Code Sections 523H.1-523H.17], MICHIGAN [Stat. Section 19.854(27)], MINNESOTA [Stat. Section 80C.14], MISSISSIPPI [Code Section 75-24-51], MISSOURI [Stat. Section 407.400], NEBRASKA [Rev. Stat. Section 87-401], NEW JERSEY [Stat. Section 56:10-1], SOUTH DAKOTA [Codified Laws Section 37-5A-51], VIRGINIA [Code 1 3.1-557-574-13.1-564], WASHINGTON [Code Section 19.100.180], WISCONSIN [Stat. Section 135.03]. These and other states may have court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

- i. A "public figure" is a person whose name or physical appearance is generally known to the public in the geographic area where the franchise will be located.

- ii. Disclose the compensation paid or promised for the endorsement or use of the name of the public figure.
- iii. Describe the public figure's position and duties in the franchisor's business structure.
- iv. State the amount of the public figure's investment. Describe the extent of the amount contributed in services performed or to be performed. State the type of investment (for example, common stock, promissory note).
- v. Use sample answer 18-1 for a negative response.

Sample Answer 18-1

Belmont does not use any public figure to promote its franchise.

Sample Answer 18-2

Belmont has paid Ralph Doister \$50,000 for the use of his name in promoting the sale of our franchise. The right expires December 31, 1992. Belmont has produced newspaper ads, a brochure and a video which feature Mr. Doister. Mr. Doister does not manage or own an interest in Belmont.

ITEM 19

EARNINGS CLAIMS

- A. AN EARNINGS CLAIM MADE IN CONNECTION WITH AN OFFER OF A FRANCHISE MUST BE INCLUDED IN FULL IN THE OFFERING CIRCULAR AND MUST HAVE A REASONABLE BASIS AT THE TIME IT IS MADE. IF NO EARNINGS CLAIM IS MADE, ITEM 19 OF THE OFFERING CIRCULAR MUST CONTAIN THE NEGATIVE DISCLOSURE PRESCRIBED IN THE INSTRUCTION.

Item 19 Instructions:

- i. Definition: "Earnings claim" means information given to a prospective franchisee by, on behalf of or at the direction of the franchisor or its agent, from which a specific level or range of actual or potential sales, costs, income or profit from franchised or non-franchised units may be easily ascertained.

A chart, table or mathematical calculation presented to demonstrate possible results based upon a combination of variables (such as multiples of price and quantity to reflect gross sales) is an earnings claim subject to this item.

An earnings claim limited solely to the actual operating results of a specific unit being offered for sale need not comply with this item if it is given only to potential purchasers of that unit and is accompanied by the name and last known address of each owner of the unit during the prior three years.

- ii. Supplemental earnings claim: If a franchisor has made an earnings claim in accordance with this Item 19, the franchisor may deliver to a prospective franchisee a supplemental earnings claim directed to a particular location or circumstance, apart from the offering circular. The supplemental earnings claim must be in writing, explain the departure from the earnings claim in the offering circular, be prepared in accordance with this item 19, and be left with the prospective franchisee.
- iii. Scope of requirement: An earnings claim is not required in connection with the offer of franchises; if made, however, its presentation must conform with this Item 19. If an earnings claim is not made, then negative disclosure 19 (below) must be used.
- iv. Claims regarding future performance: A statement or prediction of future performance that is prepared as a forecast or projection in accordance with the statement on standards for accountants' services on prospective financial information (or its successor) issued by the American Institute of Certified Public Accountants, Inc., is presumed to have a reasonable basis.
- v. Burden of proof: The burden is upon the franchisor to show that it had a reasonable basis for its earnings claim.

[NEGATIVE DISCLOSURE 19]

REPRESENTATIONS REGARDING EARNINGS CAPABILITY

Belmont does not furnish or authorize its salespersons to furnish any oral or written information concerning the actual or potential sales, costs, income or profits of [a Belmont muffler shop]. Actual results vary from unit to unit and Belmont cannot estimate the results of any particular franchise.

B. AN EARNINGS CLAIM SHALL INCLUDE A DESCRIPTION OF ITS FACTUAL BASIS AND THE MATERIAL ASSUMPTIONS UNDERLYING ITS PREPARATION AND PRESENTATION.

Item 19B Instructions:

- i. **FACTUAL BASIS:** The factual basis of an earnings claim includes significant matters upon which a franchisee's future results are expected to depend. This includes for example, economic or market conditions which are basic to a franchisee's operation and encompass matters affecting, among other things, franchisee's sales, the cost of goods or services sold and operating expenses.

In the absence of an adequate operating experience of its own, a franchisor may base an earnings claim upon the results of operations of a substantially similar business of a person affiliated with the franchisor or franchisees of that person; provided that disclosure is made of any material differences in the economic or market conditions known to, or reasonably ascertainable by, the franchisor.

- ii. Basic Disclosures: The earnings claim must state:
- (a) Material assumptions, other than matters of common knowledge, underlying the claim (see Definition iii under Item 3 for the definition of "material");
 - (b) A concise summary of the basis for the claim including a statement of whether the claim is based upon actual experience of franchised units and, if so, the percentage of franchised outlets in operation for the period covered by the earnings claim that have actually attained or surpassed the stated results;
 - (c) A conspicuous admonition that a new franchisee's individual financial results are likely to differ from the result stated in the earnings claim; and
 - (d) A statement that substantiation of the data used in preparing the earnings claim will be made available to the prospective franchisee on reasonable request.

Item 20

LIST OF OUTLETS

DISCLOSE THE FOLLOWING:

- A. THE NUMBER OF FRANCHISES OF A TYPE SUBSTANTIALLY SIMILAR TO THOSE OFFERED AND THE NUMBER OF FRANCHISOR OWNED OR OPERATED OUTLETS AS OF THE CLOSE OF EACH OF THE FRANCHISOR'S LAST 3 FISCAL YEARS. SEGREGATE FRANCHISES THAT ARE OPERATIONAL FROM FRANCHISES NOT YET OPERATIONAL. SEGREGATE DISCLOSURE BY STATE. TOTAL EACH CATEGORY.
- B. THE NAMES OF ALL FRANCHISEES AND THE ADDRESSES AND TELEPHONE NUMBERS OF ALL OF THEIR OUTLETS. THE FRANCHISOR MAY LIMIT ITS DISCLOSURE TO ALL FRANCHISEE OUTLETS IN THE STATE, BUT IF THESE FRANCHISEE OUTLETS TOTAL FEWER THAN 100, DISCLOSE FRANCHISEE OUTLETS FROM ALL CONTIGUOUS STATES AND THEN THE NEXT CLOSEST STATE(S) UNTIL AT LEAST 100 FRANCHISEE OUTLETS ARE LISTED.
- C. THE ESTIMATED NUMBER OF FRANCHISES TO BE SOLD DURING THE 1 YEAR PERIOD AFTER THE CLOSE OF THE FRANCHISOR'S MOST RECENT FISCAL YEAR.
- D. THE NUMBER OF FRANCHISEE OUTLETS IN THE FOLLOWING CATEGORIES THAT, FOR THE 3-YEAR PERIOD IMMEDIATELY BEFORE THE CLOSE OF FRANCHISOR'S MOST RECENT FISCAL YEAR HAVE:
 - (1) TRANSFERRED CONTROLLING OWNERSHIP;
 - (2) BEEN CANCELLED OR TERMINATED BY THE FRANCHISOR;
 - (3) NOT BEEN RENEWED BY THE FRANCHISOR;
 - (4) BEEN REACQUIRED BY THE FRANCHISOR; OR
 - (5) BEEN REASONABLY KNOWN BY THE FRANCHISOR TO HAVE OTHERWISE CEASED TO DO BUSINESS IN THE SYSTEM.

- E. THE NAME AND LAST KNOWN HOME ADDRESS AND TELEPHONE NUMBER OF EVERY FRANCHISEE WHO HAS HAD AN OUTLET TERMINATED, CANCELLED, NOT RENEWED, OR OTHERWISE VOLUNTARILY OR INVOLUNTARILY CEASED TO DO BUSINESS UNDER THE FRANCHISE AGREEMENT DURING THE MOST RECENT LY COMPLETED FISCAL YEAR OR WHO HAS NOT COMMUNICATED WITH THE FRANCHISOR WITHIN 10 WEEKS OF THE APPLICATION DATE.

Item 20 Instructions:

- i. Do not include a transfer when beneficial ownership of the franchise does not change.
- ii. List an outlet that is reacquired by the franchisor in that column whether or not it also fits another category.
- iii. Other than the franchisee names, addresses, and telephone numbers, disclose Item 20 information in tabular form. Use footnotes or a "remarks" column to elaborate on information in the table or to disclose caveats. Disclose the number of franchised and franchisor owned outlets sold, opened and closed. Disclose the total number of franchised and franchisor owned outlets open at the end of each year. Disclose information for each of the last 3 fiscal years.
- iv. If an outlet has been operated by more than one franchisee, disclose each transfer in the transfer column.
- v. Disclose information about franchisor owned outlets that are substantially similar to the franchised outlets. In this Item "franchisor owned" outlets include outlets owned by the franchisor and by its affiliates. Use a separate table with a format similar to the format for franchised outlets. The same table may be used if the franchisor owned outlets are separated from franchised outlets.
- vi. For franchisees operating within the system disclose franchisee business addresses and telephone numbers. List outlets owned by the persons listed in Item 2 and their immediate families or by business entities owned by them as franchisor owned outlets. These outlets can be identified in the table by an asterisk.
- vii. Separate information by state. List all states for which franchisor has information responsive to this Item.
- viii. When the requirement states "most recent fiscal year," the franchisor may use a more recent date if it discloses that date and uses that date for all disclosures in this Item.
- ix. When the requirement states "most recent fiscal year," the state may require a more recent date.

Sample Answer 20

FRANCHISED STORE STATUS SUMMARY FOR YEARS 1992/1991/1990							
<u>State</u>	<u>Transfer</u> <u>s</u>	<u>CANCELL</u> <u>ED OR</u> <u>TERMINA</u> <u>TED</u>	<u>NOT</u> <u>REN</u> <u>EWED</u> <u>D</u>	<u>REACQU</u> <u>IED</u> <u>BY</u> <u>FRANCH</u> <u>ISOR</u>	<u>LEF T</u> <u>THE</u> <u>SYSTE</u> <u>M</u> <u>OTHER</u>	<u>TOTAL</u> <u>FROM</u> <u>LEFT</u> <u>COLUMN</u> <u>S (2)</u>	<u>FRANCHI</u> <u>SES</u> <u>OPERATI</u> <u>NG</u> <u>AT YEAR</u> <u>END</u>
Alaska							2/0/0
Arizona	2/1/0					2/1/0	8/6/2

Arkansas							6/4/2
California					1/1/0	1/1/0	4/0/0
Colorado							3/3/3
Connecticut							5/3/1
Delaware		1/0/0				1/0/0	6/4/0
Florida							2/0/0
Georgia							2/0/0
Idaho							<u>2/0/0</u>
Totals	2/1/0	1/0/0	0/0/0	0/0/0	1/1/0	4/2/0	40/20/8

- 1) Note: All numbers are as of December 31 for each year.
- 2) The numbers in the "Total" column may exceed the number of stores affected because several events may have affected the same store. For example, the same store may have had multiple owners.

STATUS OF COMPANY OWNED STORES
FOR YEARS 1992/1991/1990

<u>STATE</u>	<u>STORES CLOSED DURING YEAR</u>	<u>STORES OPENED DURING YEAR</u>	<u>TOTAL STORES OPERATING AT YEAR END</u>
Alaska			
Arizona			
Arkansas			
California			
Colorado			
Connecticut			
Delaware			
Florida			
Georgia			
Idaho			
	<u>0/0/0</u>	<u>0/0/0</u>	<u>0/0/0</u>

Note: Belmont no longer operates company owned stores.

PROJECTED OPENINGS
AS OF DECEMBER 31, 1992

	<u>FRANCHISE AGREEMENTS SIGNED BUT STORE NOT OPEN (1)</u>	<u>PROJECTED FRANCHISED NEW STORES IN THE NEXT FISCAL YEAR</u>	<u>PROJECTED COMPANY OWNED OPENINGS IN NEXT FISCAL YEAR</u>
Alaska	1	1	
Arizona			
Arkansas			
California			
Colorado			
Connecticut		2	

Delaware			
Florida			
Georgia			
Idaho	1	_____	0
Totals	2	3	_____

Note (1) As of December 31, 1992

Item 21

FINANCIAL STATEMENTS

PREPARE FINANCIAL STATEMENTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. THESE FINANCIAL STATEMENTS MUST BE AUDITED BY AN INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT. UNAUDITED STATEMENTS MAY BE USED FOR INTERIM PERIODS. INCLUDE THE FOLLOWING FINANCIAL STATEMENTS.

- A. THE FRANCHISER'S BALANCE SHEETS FOR THE LAST TWO FISCAL YEAR ENDS BEFORE THE APPLICATION DATE. IN ADDITION INCLUDE STATEMENTS OF OPERATIONS, OF STOCKHOLDERS EQUITY AND OF CASH FLOWS FOR EACH OF THE FRANCHISER'S LAST THREE FISCAL YEARS. IF THE MOST RECENT BALANCE SHEET AND STATEMENT OF OPERATIONS ARE AS OF A DATE MORE THAN 90 DAYS BEFORE THE APPLICATION DATE, THEN ALSO SUBMIT AN UNAUDITED BALANCE SHEET AND STATEMENT OF OPERATIONS AS OF A DATE WITHIN 90 DAYS OF THE APPLICATION DATE.
- B. AFFILIATED COMPANY STATEMENTS. INSTEAD OF THE DISCLOSURE REQUIRED BY ITEM 21A, THE FRANCHISER MAY INCLUDE FINANCIAL STATEMENTS OF ITS AFFILIATED COMPANY IF THE AFFILIATED COMPANY'S FINANCIAL STATEMENTS SATISFY ITEM 21A AND THE AFFILIATED COMPANY ABSOLUTELY AND UNCONDITIONALLY GUARANTEES TO ASSUME THE DUTIES AND OBLIGATIONS OF THE FRANCHISER UNDER THE FRANCHISE AGREEMENT.
- C. CONSOLIDATED AND SEPARATE STATEMENTS:
 - (1) WHEN A FRANCHISER OWNS A DIRECT OR BENEFICIAL, CONTROLLING FINANCIAL INTEREST IN ANOTHER CORPORATION, ITS FINANCIAL STATEMENTS SHOULD REFLECT THE FINANCIAL CONDITION OF THE FRANCHISER AND ITS SUBSIDIARIES.
 - (2) IF THE APPLICANT IS A SUBFRANCHISER INCLUDE SEPARATE FINANCIAL STATEMENTS FOR THE FRANCHISER AND SUBFRANCHISER RELATED ENTITY.
 - (3) PREPARE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

Item 21 Instructions:

- i. States may require financial statements additional to those listed in this Item.
- ii. A company controlling 80% or more of a franchiser may be required to include its financial statements.

- iii. Present required financials in a format of columns which compare at least 2 fiscal years.
- iv. In Item 21A, the required financial statements for a franchiser with a calendar fiscal year end and a July 15, 1989 application filing date are:
 - a) Unaudited balance sheet as of either April 30, May 31 or June 30, 1989 with an unaudited income statement for the period from January 1, 1989 to the date of the balance sheet;
 - b) Balance sheets, statements of operations, of stockholders equity and of cash flow. The balance sheets should be audited and as of December 31, 1987 and 1988. The remaining statements should be audited and should be for periods ending December 31, 1986, 1987 and 1988; and
 - c) If the franchiser has never had an audit, it need not supply the financial statement required by (b) if it supplies either an audit as of its last fiscal year end or the statements required by (a) in an audited form.
- v. In the Item 21B response, the affiliate's guarantee need cover only the franchiser's obligations to the franchisee. The guarantee need not extend to third parties. A sample guarantee is on page in Exhibit ____.
- vi. In the Item 21B response the filing state may permit a surety bond instead of the parent company's guarantee.
- vii. Disclose the existence of a guarantee.

Item 22

CONTRACTS

ATTACH A COPY OF ALL AGREEMENTS PROPOSED FOR USE OR IN USE IN THIS STATE REGARDING THE OFFERING OF A FRANCHISE, INCLUDING, THE FRANCHISE AGREEMENT, LEASES, OPTIONS AND PURCHASE AGREEMENTS.

Item 22 Instructions:

- i. Copies of agreements attached to the offering circular under Item 22 are part of the offering circular. Each offering circular delivered to a prospective franchisee must include copies of all agreements to be offered.
- ii. The franchisor may cross reference Item 10 for financing agreements.

Item 23

RECEIPT

THE LAST PAGE OF THE OFFERING CIRCULAR IS A DETACHABLE DOCUMENT ACKNOWLEDGING RECEIPT OF THE OFFERING CIRCULAR BY THE PROSPECTIVE FRANCHISEE. IT MUST CONTAIN THE FOLLOWING STATEMENT IN BOLDFACE TYPE:

THIS OFFERING CIRCULAR SUMMARIZES CERTAIN PROVISIONS OF THE FRANCHISE AGREEMENT AND OTHER INFORMATION IN PLAIN LANGUAGE. READ THIS OFFERING CIRCULAR AND ALL AGREEMENTS CAREFULLY.

IF _____ OFFERS YOU A FRANCHISE, _____ MUST PROVIDE THIS OFFERING CIRCULAR TO YOU BY THE EARLIEST OF:

- (1) THE FIRST PERSONAL MEETING TO DISCUSS OUR FRANCHISE; OR
- (2) TEN BUSINESS DAYS BEFORE THE SIGNING OF A BINDING AGREEMENT; OR
- (3) TEN BUSINESS DAYS BEFORE A PAYMENT TO _____.

YOU MUST ALSO RECEIVE A FRANCHISE AGREEMENT CONTAINING ALL MATERIAL TERMS AT LEAST FIVE BUSINESS DAYS BEFORE YOU SIGN A FRANCHISE AGREEMENT.

IF _____ DOES NOT DELIVER THIS OFFERING CIRCULAR ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND (STATE AGENCY). (ANY ADDITIONAL STATE DISCLOSURE TIME OR REQUIRED STATUTORY LANGUAGE.)

Item 23 Instructions:

1. Place the name of the franchisor in the blank.
2. Make two copies of the Receipt: one for retention by the franchisee and one by the franchisor.
3. Disclose the name, principal business address and telephone number of the subfranchisor or franchise broker offering the franchise in this state.
4. List the title of all attached exhibits.
5. Effective Date: (Leave blank until notified of effectiveness by state regulatory authority.)
6. The name and address of the franchisor's registered agent authorized to receive service of process if not disclosed in Item 1.

Sample Answer 23

RECEIPT

THIS OFFERING CIRCULAR SUMMARIZES PROVISIONS OF THE FRANCHISE AGREEMENT AND OTHER INFORMATION IN PLAIN LANGUAGE. READ THIS OFFERING CIRCULAR AND ALL AGREEMENTS CAREFULLY.

IF BELMONT OFFERS YOU A FRANCHISE, BELMONT MUST PROVIDE THIS OFFERING CIRCULAR TO YOU BY THE EARLIEST OF:

- (1) THE FIRST PERSONAL MEETING TO DISCUSS OUR FRANCHISE; OR
- (2) TEN BUSINESS DAYS BEFORE SIGNING OF A BINDING AGREEMENT; OR
- (3) TEN BUSINESS DAYS BEFORE ANY PAYMENT TO BELMONT.

YOU MUST ALSO RECEIVE A FRANCHISE AGREEMENT CONTAINING ALL MATERIAL TERMS AT LEAST FIVE BUSINESS DAYS BEFORE YOU SIGN ANY FRANCHISE AGREEMENT.

IF BELMONT DOES NOT DELIVER THIS OFFERING CIRCULAR ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND (STATE AGENCY).

Belmont authorizes Legal Process Corp at 448 West Washington Avenue, City, State to receive service of process for Belmont. I have received a Uniform Franchise Offering Circular dated _____. This offering circular included the following Exhibits:

- A. License Agreement
- B. Equipment Lease
- C. Lease for Premises
- D. Loan Agreement

Date

Franchisee

UNIFORM FRANCHISE REGISTRATION APPLICATION

(Insert file number of previous filings of Applicant)

FEE: _____

(Enclosed when
application
is initially
filed)

APPLICATION FOR (Check only one):

_____REGISTRATION OF AN OFFER AND SALE OF FRANCHISES

_____REGISTRATION RENEWAL STATEMENT OR ANNUAL REPORT

AMENDMENT NUMBER_____TO APPLICATION

_____ POST-EFFECTIVE FILED UNDER SECTION_____

_____PRE-EFFECTIVE DATED _____

1.Name of Franchisor. (If applicant is subfranchisor, the name of the subfranchisor.)

Name under which the Franchisor is doing or intends to do business.

2.Franchisor's principal business address.

Name and address of Franchisor's agent in the State of (Name of State) authorized to receive process.

3.Name, address and telephone number of subfranchisors, if any, for this state.

4.Name, address and telephone number of person to whom communications regarding this application should be directed.

Form B - Supplemental Information

SUPPLEMENTAL INFORMATION

1. Disclose:

- A. The states in which this proposed registration application is effective.
- B. The states in which this proposed registration application is or will be shortly on file.
- C. The states that have refused to register this franchise offering.
- D. The states that have revoked or suspended the right to offer franchises.
- E. The states in which this proposed registration of these franchises has been withdrawn within the last five years, and the reasons for revocation or suspension.

2. Source of Funds for Establishing New Franchises

Disclose franchisor's total costs for performing its pre-opening obligations to provide goods or services in connection with establishing each franchise, including real estate, improvements, equipment, inventory, training and other items stated in the offering. State separately the sources of all required funds.

Form C - Certification

I certify under penalty of law that I have read and know the contents of this application and the documents attached as exhibits and incorporated by reference and that the statements in all these documents are true and correct.

Executed at _____, _____, 19____

(Signature(s) of Franchisor and/or
Subfranchisor)

By _____

(Seal) Title _____

STATE OF _____)

) ss.

COUNTY OF _____)

Personally appeared before me this _____ day of _____, 19 _____ the above-named _____ and _____ to me known to be the person(s) who executed the foregoing application (as _____ and _____ respectively, of the above-named applicant) and (each), being first duly sworn, stated upon oath that said application, and all exhibits submitted herewith, are true and correct.

(Notary)

CORPORATE ACKNOWLEDGMENT

STATE OF _____)

) ss.

COUNTY OF _____)

On this _____ day of _____, 19____, before me

_____ the undersigned officer, personally

(Name of Notary)

appeared _____ and _____, known personally to me to be the
_____ President and _____ Secretary, respectively, of the above-named
corporation, and that they, as such officers, being authorized to do so, executed the foregoing instrument for the
purposes therein contained, by signing the name of the corporation by themselves as such officers.

IN WITNESS WHEREOF I have hereunto set my hand and official seal.

(Notary Public)

(NOTARIAL SEAL) My commission expires: _____

INDIVIDUAL OR PARTNERSHIP ACKNOWLEDGMENT

STATE OF _____)
_____) ss.
COUNTY OF _____)

On this ____ day of _____, 19_____, before me, _____, the
undersigned officer, personally appeared _____ to me personally known and known to
me to be the same person(s) whose name(s) is (are) signed to the foregoing instrument, and acknowledged the
execution thereof for the uses and purposes therein set forth.

IN WITNESS WHEREOF I have hereunto set my hand and official seal.

(Notary Public)

(NOTARIAL SEAL) My commission expires: _____

UNIFORM CONSENT TO SERVICE OF PROCESS

_____, (a corporation organized under the laws of the
State of _____) (a partnership) (an individual) _____,
irrevocably appoints the _____ (regulatory authority)
and the successors in office, its attorney in the State of _____ for service
of notice, process or pleading in an action or proceeding against it arising out of or
in connection with the sale of franchises, or a violation of the franchise laws of
_____, and consents that an action or proceeding against it may
be commenced in a court of competent jurisdiction and proper venue within _____
by service of process upon this officer with the same effect as if the undersigned was
organized or created under the laws of _____ and had lawfully been
served with process in _____. It is requested that a copy of any notice,
process or pleading served this consent be mailed to:

(Name and address)

Dated: _____, 19____.

By _____

Title _____

(SEAL)

By _____

Title _____

Form E - Sales agent Disclosure Form

SALES AGENT DISCLOSURE FORM

1. List the persons who will offer or sell franchises in this state. For each person state:

A. Name;

B. Business address and telephone number;

C. Home address and telephone number;

D. Present employer;

E. Present title;

F. Social Security Number;

G. Birthday; and

H. Employment during the past five years. For each employment, state the name of the employer, position held, and beginning and ending dates.

2. State whether any person identified in 1. above:

- A. Has any administrative, civil or criminal action pending alleging a violation of franchise or securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property or any comparable allegations?

YES _____ NO _____

B. Had during the ten-year period immediately before the offering circular date:

(1) been convicted of a felony or pleaded no lo contendere to a felony charge or been held liable in a civil action by final judgment if the felony or civil action involved a violation of franchise or securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property or comparable violations of law?

YES _____

NO _____

(2) entered into or been named in a consent judgment, decree, order or assurance under federal or state franchise, securities, anti-trust, monopoly, trade practice or trade regulation law?

YES _____ NO _____

(3) been subject to an order or national securities association or national securities exchange as defined in the Securities and Exchange Act of 1934 suspending or expelling the person from membership in the association or exchange?

YES _____ NO _____

C. For each above question answered "YES" state:

- (1) the name of the person or entity involved;
- (2) the court, agency, association or exchange involved;
- (3) a summary of the allegations;
- (4) if applicable, the date of the conviction, judgment, decree, order or assurance; and
- (5) the penalty imposed, damages assessed, terms and conditions of the judgment, decree, or order or assurance.

Form F

GUARANTEE OF PERFORMANCE

For value received _____ located at
_____, absolutely and unconditionally

(Address)

guarantees the performance by _____,
located at _____ of all of the

(Address)

obligations of _____ under its
franchise registration in the State of _____

(Name of state or province)

dated _____ and of its Franchise

(Effective date of renewal)

Agreement. This guarantee continues until all obligations of
_____ under the franchise registration
and franchise agreement are satisfied.

is not discharged from liability if a claim by the franchisee
against _____ remains outstanding. Notice of

acceptance is waived. Notice of default on the part of

_____ is not waived. This guarantee is binding
on _____ and on its successors and assignees.

_____ executes this guarantee at

(Parent)

_____ on the _____ day of _____

19____.

(Parent)

By:

Title: _____